

# OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

---

In the Matter of: )  
 ) Docket No.: R2006-1  
POSTAL RATE AND FEE CHANGES )

VOLUME #7

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

2006 AUG 11 P 4:31

RECEIVED

Date: August 10, 2006  
Place: Washington, D.C.  
Pages: 1466 through 1891

---

## HERITAGE REPORTING CORPORATION

*Official Reporters*

1220 L Street, N.W., Suite 600

Washington, D.C. 20005

(202) 628-4888



APPEARANCES: (Cont'd.)

On behalf of the Office of the Consumer Advocate:

SHELLEY DREIFUSS, Esquire  
KENNETH RICHARDSON, Esquire  
Postal Rate Commission  
Office of the Consumer Advocate  
901 New York Avenue, N.W., Suite 200  
Washington, D.C. 20268  
(202) 789-6839

On behalf of American Business Media:

DAVID R. STRAUS, Esquire  
Thompson Coburn, LLP  
1909 K Street, N.W., Suite 600  
Washington, D.C. 20006-1167  
(202) 585-6921

On behalf of Association for Postal Commerce:

IAN D. VOLNER, Esquire  
Venable, LLP  
575 7th Street, N.W.  
Washington, D.C. 20004  
(202) 344-4814

On behalf of Magazine Publishers of America:

DAVID M. LEVY, Esquire  
Sidley Austin Brown & Wood, LLP  
1501 K Street, N.W.  
Washington, D.C. 20005-1401  
(202) 736-8214

On behalf of Mailing and Fulfillment Service Association:

IAN D. VOLNER, Esquire  
Venable, LLP  
575 7th Street, N.W.  
Washington, D.C. 20004  
(202) 344-4814

APPEARANCES: (Cont'd.)

On behalf of Major Mailers Association:

MICHAEL W. HALL, Esquire  
Law Offices of Michael W. Hall  
35396 Millville Road  
Middleburg, Virginia 20117  
(540) 687-3151

On behalf of The McGraw-Hill Companies, Inc.:

TIMOTHY W. BERGIN, Esquire  
Hall, Estill, Hardwick, Gable, Golden & Nelson, P.C.  
1120 20th Street, N.W.  
Suite 700, North Building  
Washington, D.C. 20036-3406  
(202) 973-1224

On behalf of National Newspaper Association:

TONDA RUSH, Esquire  
King & Ballow  
P.O. Box 50301  
Arlington, Virginia 22205  
(703) 812-8989

On behalf of Parcel Shippers Association:

TIMOTHY J. MAY, Esquire  
Patton Boggs, LLP  
2550 M Street, N.W.  
Washington, D.C. 20037-1350  
(202) 457-6050

C O N T E N T S

## WITNESSES APPEARING:

L. PAUL LOETSCHER  
RACHEL TANG

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
L. Paul Loetscher	1472	--	1608	--	--
by Mr. Volner	--	1537	--	--	--
by Mr. Hall	--	1570	--	--	--
by Mr. May	--	1591	--	--	--
Rachel Tang	1611	--	1888	--	--
by Mr. Strauss	--	1790	--	--	--
by Mr. Levy	--	1833	--	--	--
by Mr. Bergin	--	1855	--	--	--
by Ms. Rush	--	----	--	--	--

<u>RULINGS</u>	<u>PAGE</u>
Ruling granting due date extension of Postal Service responses to NOIs 2 and 3 to August 17	1471

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Corrected designated written cross-examination of L. Paul Loetscher, USPS-T-28	1476
Major Mailers Association Cross-Examination Exhibit, MMA-XE-1	1580
Response of United States Postal Service to Presiding Officer's Ruling No. 30	1615
Corrected designated written cross-examination of Rachel Tang USPS-T-35	1621

E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected direct testimony of L. Paul Loetscher on behalf of the United States Postal Service, USPS-T-28	1472	1473
Corrected designated written cross-examination of L. Paul Loetscher, USPS-T-28	1475	1475
Major Mailers Association Cross-Examination Exhibit, MMA-XE-1	1578	1579
Corrected direct testimony of Rachel Tang on behalf of the United States Postal Service, USPS-T-35	1611	1613
Response of United States Postal Service to Presiding Officer's Ruling No. 30	1614	1614
Corrected designated written cross-examination Rachel Tang, USPS-T-35	1620	1620



1           Whereupon,

2                           L. PAUL LOETSCHER

3           having been duly sworn, was called as a  
4 witness and was examined and testified as follows:

5           CHAIRMAN OMAS: Please be seated. I'm  
6 sorry, Mr. Loetscher. I mispronounced your name.

7           THE WITNESS: You and about a million other  
8 people.

9           CHAIRMAN OMAS: Good. Thank you. That's  
10 what I wanted to hear.

11           You may continue.

12           MR. REIMER: Thank you.

13   (The document referred to was  
14   marked for identification as  
15   Exhibit No. USPS-T-28.)

16   DIRECT EXAMINATION

17           BY MR. REIMER:

18           Q    Mr. Loetscher, before you are two documents  
19 entitled Direct Testimony of L. Paul Loetscher on  
20 Behalf of the United States Postal Service.

21                   Were those documents prepared by you or  
22 under your supervision?

23           A    Yes, they were.

24           Q    If you were to give the contents of those  
25 documents as your oral testimony today, would they be

1 the same?

2 A Yes, they would.

3 Q Are there Category II library references  
4 associated with your testimony?

5 A Yes, there are.

6 Q And are those library references designated  
7 as USPS-LR-L-32, L-33, L-34, L-87, L-91 and L-92?

8 A Yes, they are.

9 MR. REIMER: Mr. Chairman, we are handing  
10 two copies of the direct testimony of L. Paul  
11 Loetscher to the reporter and ask that it and its  
12 associated library references be entered into the  
13 record.

14 CHAIRMAN OMAS: Is there any objection?

15 (No response.)

16 CHAIRMAN OMAS: Hearing none, I will direct  
17 counsel to provide the reporter with two copies of the  
18 corrected direct testimony of Paul Loetscher.

19 That testimony is received into evidence.  
20 However, as is our practice, it will not be  
21 transcribed.

22 (The document referred to,  
23 previously identified as  
24 Exhibit No. USPS-T-28, was  
25 received in evidence.)

1                   CHAIRMAN OMAS: Mr. Loetscher, have you had  
2 an opportunity to examine the packet of designated  
3 written cross-examination presented to you this  
4 morning?

5                   THE WITNESS: Yes, I have.

6                   CHAIRMAN OMAS: If the questions contained  
7 in that packet were posed to you orally today, would  
8 your answers be the same as those you provided in  
9 writing?

10                  THE WITNESS: There was one correction to  
11 the packet, my response to Time-Warner-T-28-15(d).  
12 There was a revision that was not included in the  
13 packet, and we have substituted the revised version.

14                  CHAIRMAN OMAS: Are there any additional  
15 corrections or additions you would like to make to  
16 those answers?

17                  THE WITNESS: No, there's not.

18                  CHAIRMAN OMAS: Counsel, would you please  
19 provide two copies of the corrected designated written  
20 cross-examination of Witness Loetscher to the  
21 reporter?

22                  That material is received into evidence and  
23 is to be transcribed into the record.

24                  //

25                  //

1 (The document referred to was  
2 marked for identification as  
3 Exhibit No. USPS-T-28 and was  
4 received in evidence.)

5 //

6 //

7 //

8 //

9 //

10 //

11 //

12 //

13 //

14 //

15 //

16 //

17 //

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS L. PAUL LOETSCHER  
(USPS-T-28)

<u>Party</u>	<u>Interrogatories</u>
Advo, Inc.	VP/USPS-T30-20 redirected to T28
Alliance of Nonprofit Mailers	MPA/USPS-T28-1
Association for Postal Commerce	PostCom/USPS-T28-1 PSA/USPS-T28-1-2 VP/USPS-T30-20 redirected to T28
Greeting Card Association	GCA/USPS-T28-1
Magazine Publishers of America	MPA/USPS-T28-1
Mailing & Fulfillment Service Association	PostCom/USPS-T28-1 PSA/USPS-T28-1-2 VP/USPS-T30-20 redirected to T28
Major Mailers Association	MMA/USPS-T22-5c-d, 6c redirected to T28
Office of the Consumer Advocate	MMA/USPS-T22-5c-d, 6c redirected to T28 VP/USPS-T30-20 redirected to T28
Parcel Shippers Association	PSA/USPS-T28-1-2

PartyInterrogatories

Postal Rate Commission

MPA/USPS-T27-1g-i redirected to T28  
PostCom/USPS-T28-1  
PRC/USPS-POIR No.8 - Q1c redirected to T28  
PSA/USPS-T28-1  
TW/USPS-T28-1-16, 17a, c-d

Time Warner Inc.

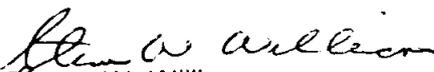
TW/USPS-T28-1-16

Valpak Direct Marketing Systems,  
Inc. and Valpak Dealers'  
Association Inc.

VP/USPS-T28-1

VP/USPS-T30-20 redirected to T28

Respectfully submitted,



Steven W. Williams  
Secretary

INTERROGATORY RESPONSES OF  
 UNITED STATES POSTAL SERVICE  
 WITNESS L. PAUL LOETSCHER (T-28)  
 DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
GCA/USPS-T28-1	GCA
MMA/USPS-T22-5c redirected to T28	MMA, OCA
MMA/USPS-T22-5d redirected to T28	MMA, OCA
MMA/USPS-T22-6c redirected to T28	MMA, OCA
MPA/USPS-T28-1	ANM, MPA
MPA/USPS-T27-1g redirected to T28	PRC
MPA/USPS-T27-1h redirected to T28	PRC
MPA/USPS-T27-1i redirected to T28	PRC
PostCom/USPS-T28-1	MFSA, PostCom, PRC
PRC/USPS-POIR No.8 - Q1c redirected to T28	PRC
PSA/USPS-T28-1	MFSA, PostCom, PRC, PSA
PSA/USPS-T28-2	MFSA, PostCom, PSA
TW/USPS-T28-1	PRC, TW
TW/USPS-T28-2	PRC, TW
TW/USPS-T28-3	PRC, TW
TW/USPS-T28-4	PRC, TW
TW/USPS-T28-5	PRC, TW
TW/USPS-T28-6	PRC, TW
TW/USPS-T28-7	PRC, TW
TW/USPS-T28-8	PRC, TW
TW/USPS-T28-9	PRC, TW
TW/USPS-T28-10	PRC, TW
TW/USPS-T28-11	PRC, TW
TW/USPS-T28-12	PRC, TW
TW/USPS-T28-13	PRC, TW
TW/USPS-T28-14	PRC, TW
TW/USPS-T28-15	PRC, TW
TW/USPS-T28-16	PRC, TW
TW/USPS-T28-17a	PRC
TW/USPS-T28-17c	PRC
TW/USPS-T28-17d	PRC
VP/USPS-T28-1	Valpak

Interrogatory

VP/USPS-T30-20 redirected to T28

Designating Parties

Advo, MFSA, OCA,  
PostCom, Valpak

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF THE GREETING CARD ASSOCIATION

**GCA/USPS-T28-1:**

Please refer to Library Reference USPS-L-87, and specifically to the table presenting First-Class Mail data by shape for Government Fiscal Year 2005.

(a) Please confirm that the line labeled as mail code 10012BAAM and "1-C SINGLEPIECE NONMACH L/F/I/P NON-PERM IMP" reports total GFY 2005 revenue, piece volume, and weight for pieces which (i) are paid otherwise than permit imprint, and (ii) are subject to the nonmachinable surcharge. If you do not confirm, please explain fully.

(b) Does the line labeled as mail code 1120 and "1-C SP NONMACH LETTERS, FLATS, & PARCELS" report, under Revenue, only the revenue from the nonmachinable surcharge? If your answer is not an unqualified "Yes," please explain fully.

(c) Does the line labeled as mail code 1100 and "1-C SP LETTERS, FLATS & PARCELS" report, under Revenue, only the revenue from additional-ounce postage? If your answer is not an unqualified "Yes," please explain fully.

**RESPONSE:**

(a) Confirmed.

(b) Yes.

(c) No. Mail code 1100 records BRPW estimates of revenue, piece and weight of First Class Single Piece permit imprint pieces. These estimates include the first ounce estimates as well as additional ounces.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER  
(USPS-T-28) TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION,  
REDIRECTED FROM WITNESS ABDIRAHMAN (USPS-T-22)

**MMA/USPS-T22-5**

Please refer to R2006-1 Library Reference USPS-LR-L-48, page 40 and R2006-1 Library Reference USPS-LR-K-48, page 52, where you list the Presorted letter volumes by category.

- A. Can you confirm the following volumes and percentages by specific rate category for BY 2005 in this case? If not please provide corrections.

First-Class Presorted Letter Category	R2006-1	
	BY 2005 Volume (000)	Volume % Category
Nonautomation Nonmachinable Mixed ADC	10,182	1%
Nonautomation Nonmachinable ADC	4,819	0%
Nonautomation Nonmachinable 3-Digit	6,178	0%
Nonautomation Nonmachinable 5-Digit	1,250	0%
Total Nonautomation Nonmachinable	22,429	1%
Nonautomation Machinable Mixed AADC	716,554	41%
Nonautomation Machinable AADC	238,936	14%
Nonautomation Machinable 3-Digit	625,850	36%
Nonautomation Machinable 5-Digit	135,548	8%
Total Nonautomation Machinable	1,716,887	99%
Total Nonautomation	1,739,317	100%
Automation Mixed AADC	2,875,272	6%
Automation AADC	2,500,365	5%
Automation 3-Digit	22,908,988	49%
Automation 5-Digit	17,449,671	38%
Automation Carrier Route	673,921	1%
Total Automation	46,408,216	100%
Grand Total	48,147,533	

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER  
(USPS-T-28) TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION,  
REDIRECTED FROM WITNESS ABDIRAHMAN (USPS-T-22)

**Response to MMA/USPS-T22-5 (continued):**

- B. Can you confirm the following volumes and percentages by specific rate category for BY 2004 in R2005-1? If not please provide corrections.

First-Class Presorted Letter Category	R2005-1	
	BY 2004 Volume (000)	Volume % Category
Nonautomation Nonmachinable Mixed ADC	79,534	3%
Nonautomation Nonmachinable ADC	78,556	3%
Nonautomation Nonmachinable 3-Digit	391,483	14%
Nonautomation Nonmachinable 5-Digit	308,225	11%
Total Nonautomation Nonmachinable	857,797	31%
Nonautomation Machinable Mixed AADC	271,548	10%
Nonautomation Machinable AADC	156,519	6%
Nonautomation Machinable 3-Digit	524,895	19%
Nonautomation Machinable 5-Digit	138,608	5%
Total Nonautomation Machinable	1,091,570	39%
Total Nonautomation	2,807,164	100%
Automation Mixed AADC	2,770,420	6%
Automation AADC	2,522,102	6%
Automation 3-Digit	22,585,608	51%
Automation 5-Digit	15,963,541	36%
Automation Carrier Route	718,203	2%
Total Automation	44,559,875	100%
Grand Total	47,367,039	

- C. Please explain what phenomena caused the percentage of Nonautomation machinable letters to increase from 39% of total Nonautomation mail in the 2004 Base Year in R2005-1 to 99% of total Nonautomation mail in the 2005 Base Year in R2006-1.
- D. Please explain what phenomena caused the volume of Nonautomation nonmachinable letters to decrease by 97.4%, from 858,797,000 to 22,429,000, between the 2004 Base Year in R2005-1 and the 2005 Base Year in R2006-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER  
(USPS-T-28) TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION,  
REDIRECTED FROM WITNESS ABDIRAHMAN (USPS-T-22)

**Response to MMA/USPS-T22-5 (continued):**

E. Please explain in detail how the significant change in the makeup of Nonautomation letters, *i.e.*, a conversion of 835 million letters from nonmachinable to machinable (857,979,000 – 22,429,000), has affected the CRA costs to process this mail between R2005-1 BY 2004 and R2006-1 BY 2005. In other words, should this increase costs, decrease costs or have no impact on costs, all other factors being equal?

**Response:**

C.,D. The decrease in the estimated volume of nonmachinable Nonautomation presort First-Class Mail reflects a change in the composition of Nonautomation Presort First-Class Mail over a ten year period 1996 – 2005. The Docket No. R2005-1 estimate of the proportion of Nonautomation nonmachinable letters was derived using estimates from LR-H-185 in R97-1 to distribute First-Class Mail Nonautomation letters to presort level and machinability. The R2006-1 estimate is based on the results of the updated First-Class Mail Characteristics Study (USPS-LR-L-32). Over this ten year period the numerous advances in addressing and mail preparation technologies and pricing incentives such as automation discounts and the nonmachinable surcharge have combined to reduce the proportion of First-Class Presort that does not receive automation discounts from 30 percent in 1996 (USPS-LR-H-145) to 4.6 percent in 2005. It is likely that similar changes to the machinability characteristics have occurred as well.

During this period mailers have been able to make minor changes to mailpiece design to allow them to qualify for automation discounts. For example, it is my understanding that LR-H-85 measured the reasons that each sample mail-piece failed upgradability standards. In the LR-H-85 study 40 percent of pieces failed upgradability standards due to OCR readability issues such as address placement in

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER  
(USPS-T-28) TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION,  
REDIRECTED FROM WITNESS ABDIRAHMAN (USPS-T-22)

**Response to MMA/USPS-T22-5 (continued):**

the OCR read area or markings in the barcode clear zone. For these pieces small changes in the mailpiece design enable pieces to become upgradable.

Changes in the rate schedule have also improved the Postal Service's ability to measure the quantity of nonmachinable pieces. In Docket R2001-1 the surcharge for nonmachinable pieces was implemented. The surcharge, in addition to providing *an incentive to mailers to produce machinable pieces*, allows the Postal Service to measure the volume of nonmachinable pieces through the revenue collected from these pieces. The USPS-LR-L-32 study controls First-Class Mail Presort Nonautomation letters to the estimated volume from USPS-LR-L-87 of First-Class Mail Presort letters subject to the nonmachinable surcharge. The use of USPS-LR-H-185 in R2005-1 overstated the volume of mail subject to the nonmachinable surcharge compared to the revenue collected from the nonmachinable surcharge. In FY04 the nonmachinable surcharge was collected on 22,087,624 First-Class Presort letters (USPS-LR-K-87).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER  
(USPS-T-28) TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION,  
REDIRECTED FROM WITNESS ABDIRAHMAN (USPS-T-22)

**MMA/USPS-T22-6**

Please refer to the summary of First-Class letter presorted unit processing costs as shown on page 1 of Library Reference USPS-LR-L-48. As shown there, the unit cost for Nonautomation letters (6.302 cents) is lower than the unit cost for automation mixed AADC letters (6.470 cents). Please also refer to R2005-1 Library Reference USPS-LR-K-48.

- A. Please confirm the 2005 Base Year volumes and percentages from Library Reference USPS-LR-L-48, page 40 as shown in the following table. If you cannot confirm, please provide the correct volumes and percentages.

First-Class Presorted Letter Category	R2006-1	
	BY 2005 Volume (000)	Volume % Subcategory
Nonautomation Nonmachinable Mixed ADC	10,182	45%
Nonautomation Nonmachinable ADC	4,819	21%
Nonautomation Nonmachinable 3-Digit	6,178	28%
Nonautomation Nonmachinable 5-Digit	1,250	6%
Total Nonautomation Nonmachinable	22,429	100%
Nonautomation Machinable Mixed AADC	716,554	42%
Nonautomation Machinable AADC	238,936	14%
Nonautomation Machinable 3-Digit	625,850	36%
Nonautomation Machinable 5-Digit	135,548	8%
Total Nonautomation Machinable	1,716,887	100%
Total Nonautomation	1,739,317	
Automation Mixed AADC	2,875,272	6%
Automation AADC	2,500,365	5%
Automation 3-Digit	22,908,988	49%
Automation 5-Digit	17,449,671	38%
Automation Carrier Route	673,921	1%
Total Automation	46,408,216	100%
Grand Total	48,147,533	

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER  
(USPS-T-28) TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION,  
REDIRECTED FROM WITNESS ABDIRAHMAN (USPS-T-22)

**Response to MMA/USPS-T22-6 (continued)**

**B.** Please confirm the 2004 Base Year volumes and percentages from R2005-1 Library Reference USPS-LR-K-48, page 52 as shown in the following table. If you cannot confirm, please provide the correct volumes and percentages.

First-Class Presorted Letter Category	R2005-1	
	BY 2004 Volume (000)	Volume % Subcategory
Nonautomation Nonmachinable Mixed ADC	79,534	9%
Nonautomation Nonmachinable ADC	78,556	9%
Nonautomation Nonmachinable 3-Digit	391,483	46%
Nonautomation Nonmachinable 5-Digit	308,225	36%
Total Nonautomation Nonmachinable	857,797	100%
Nonautomation Machinable Mixed AADC	271,548	25%
Nonautomation Machinable AADC	156,519	14%
Nonautomation Machinable 3-Digit	524,895	48%
Nonautomation Machinable 5-Digit	138,608	13%
Total Nonautomation Machinable	1,091,570	100%
Total Nonautomation	2,807,164	
Automation Mixed AADC	2,770,420	6%
Automation AADC	2,522,102	6%
Automation 3-Digit	22,585,608	51%
Automation 5-Digit	15,963,541	36%
Automation Carrier Route	718,203	2%
Total Automation	44,559,875	100%
Grand Total	47,367,039	

**C.** Please explain what phenomenon caused the volume of Nonautomation nonmachinable letters presorted to 3- and 5-digits to decrease from 82% in BY 2004 to just 34% in BY 2005.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER  
(USPS-T-28) TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION,  
REDIRECTED FROM WITNESS ABDIRAHMAN (USPS-T-22)

**Response to MMA/USPS-T22-6 (continued):**

- D. Please explain why the cost to process Nonautomation letters that bear no prebarcode is less than the cost to process MAADC automation letters that are prebarcoded.

**RESPONSE:**

- C. The change in the proportion of Nonautomation nonmachinable letters presorted to 3- and 5-digits reflects a change in the distribution of this mail over a 10 year period from 1996 to 2005; see my response to MMA/USPS-T22-5 C-D. In this period a substantial proportion of the nonmachinable Nonautomation category has migrated to automation mail categories due to rate incentives and advances in mail preparation technologies. It is my opinion that the remaining nonmachinable Nonautomation mail comes in less dense mailings that, for whatever reason, cannot be upgraded to be machinable. The less density per mailing would typically mean that there would be fewer pieces that qualify for the 3 or 5-digit sortation and *relatively more pieces would, therefore, pay the ADC or Mixed ADC rate.*

RESPONSE OF POSTAL SERVICE WITNESS LOETSCHER TO  
INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T28-1.** Please refer to your response to MPA/USPS-T27-1(g)-(i), where you state, "Please reference Table 13 in the Excel workbook accompanying my response to TW/USPS-T28-7-8, which shows container counts by container type, presort level, and entry facility type. While this is the most detailed information available to estimate the requested container counts, it is not completely sufficient for doing so."

(a) Please provide your best lower-bound and upper-bound estimates of the percentage of Periodicals Outside County sacks that are entered at the "destination" facility. Please produce data and analyses sufficient to replicate your response, or provide citations to the data and analyses if they are publicly available.

(b) Please provide your best lower-bound and upper-bound estimates of the percentage of Periodicals Outside County pallets that are entered at the "destination" facility. Please produce data and analyses sufficient to replicate your response, or provide citations to the data and analyses if they are publicly available.

(c) Please provide your best lower-bound and upper-bound estimates of the percentage of Periodicals Outside County containers that are entered at the "destination" facility. Please produce data and analyses sufficient to replicate your response, or provide citations to the data and analyses if they are publicly available.

**RESPONSE:**

(a)-(c) As mentioned in my response to MPA/USPS-T27-1(g)-(i), redirected from witness Talmo (USPS-T-27), to develop an estimate of the number of sacks entered at destination facilities -- and in this context "destination" refers to the facility where the sack is opened and the contents distributed -- requires knowledge of the proportion of 5-Digit sacks belonging to 5-Digit zones where the incoming secondary sort is performed at the DSCF and the treatment of these sacks at these facilities. I do not feel that I have sufficient information to develop a reasonable estimate of these proportions. However, in the Excel workbook accompanying this response I have provided a worksheet that estimates the

RESPONSE OF POSTAL SERVICE WITNESS LOETSCHER TO  
INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

number of containers entered at destination facilities under a range of assumptions regarding the treatment of 5-Digit sacks. In this workbook I assume that MADC sacks are opened at the OADC, ADC containers are opened at the DADC, 3-Digit and SCF containers are opened at the DSCF, and CR and 5DCRTS sacks and 5-Digit pallets are opened at the DDU. To provide an upper-bound estimate of the number of sacks entered at destination facilities, I have assumed that 100 percent of 5-Digit sacks entered at the DSCF are opened at the DSCF. To provide a lower-bound of the number of sacks entered at destination facilities, I have assumed that no 5-Digit sacks entered at the DSCF will be opened at the DSCF but rather transferred to the appropriate delivery unit to be opened and the contents distributed.

JSPS-T28-1

Distribution of Containers by Container Type, Container Presort and Entry Facility Type  
 Source Table 13 TW/USPS-T-28-7-8

Sum of Containers		Entry Type						
Type	Con Level	DDU	DSCF	DADC	DBMC	OBMC	OADC	
Pallet	CR-5D Scheme	637	195,937	13,800	512	90	6,312	
	5DCRTS	151	179,570	11,890	168	14	3,192	
	5 Digit (Auto/Presort)		898	1,088		18	131	
	5 Digit (Barcode)		68				55	
	5 Digit (Merged)	188	138,067	8,909	142		3,922	
	5 Digit (Presort)		1					
	5 Digit Scheme		83					
	5 Digit Scheme (Auto/Presort)	153	476					
	5 Digit Scheme (Merged)	1,247	104,910	12,396	139	21	2,920	
	Metro Scheme		8,348	2,372		539	418	
	3- Digit (Auto, Presort)		17,648	138			707	
	3- Digit (CR,Auto, Presort)		269,027	71,832	1,227	1,104	46,787	
	SCF		1,256,982	217,754	12,170	7,025	185,711	
	Protected SCF		10,955	1,963	19	253	1,854	
	ADC			382,870	5,208	4,806	196,614	
Sack	CR-Direct	125,288	1,725,548	458,335	11,981	199,300	398,524	
	CR-5D Scheme	30,171	211,377	14,132	4,843	365,637	97,136	
	5DCRTS	30,048	2,435,007	214,278	17,549	1,249,924	1,305,207	
	5 Digit (Auto/Presort)	489,358	4,996,547	1,479,267	28,898	252,645	4,332,429	
	5 Digit (Barcode)	30	2,244	645	1,234	5,603	55,158	
	5 Digit (Merged)	8,608	26,470	39,104	7,403	29,256	89,777	
	5 Digit (Presort)	17,427	4,920	1,943	121	199	16,547	
	5 Digit Scheme (Auto/Presort)	2,360	104,281	34,836	12,638	55,988	277,094	
	5 Digit Scheme (Barcode)	57	3,914	397	296	1,824	6,107	
	5 Digit Scheme (Merged)	1,538	466	1,321	259	2,526	10,182	
	3- Digit (Auto, Presort)		2,045,195	1,133,805	61,363	1,403,365	8,228,536	
	3 Digit (Barcoded)		9,134	2,417	158	7,030	126,795	
	3 Digit (Presort)		26,152	55,850	334	13,811	136,482	
	3-Digit Scheme						9	
	Unique 3 Digit		10,331	654	254	16,204	87,280	
	SCF		190,222	39,373	6,276	662,033	1,691,919	
ADC			858,361	9,442	970,018	3,806,806		
MADC				13,161	141,769	2,712,387		
Grand Total		707,260	13,974,779	5,059,731	195,795	5,391,004	23,826,998	

MPA/USPS-T28-1

Calculation of Upper Bound Estimate Containers Entered at Destination Facilities

Assumption of percentage of 5-Digit sacks opened and distributed at the DSCF 100%

Destination Entry Assumptions

OAO/OSCF	Grand Total
3,359	220,647
7,270	202,255
372	2,508
	123
1,441	152,668
	1
	83
42	671
1,878	123,512
850	12,528
	18,493
33,448	423,425
184,275	1,863,917
1,176	16,220
192,634	782,132
236,689	3,155,666
207,384	930,680
1,851,533	7,103,546
1,838,883	13,418,028
49,757	114,672
62,364	262,983
25,011	66,168
202,769	689,965
72,813	85,408
8,520	24,812
8,143,930	21,016,195
97,235	242,769
84,101	316,729
	9
31,154	145,877
1,887,047	4,476,870
4,668,012	10,312,640
2,140,728	5,008,044
22,034,677	71,190,243

DDU	DSCF	DADC	DBMC	OBMC	OADC	OAO/OSCF	Containers Entered at Destination
1.00							637
1.00							151
1.00							0
1.00							0
1.00							188
1.00							0
1.00							0
1.00							153
1.00							1,247
		1.00					8,348
		1.00					17,648
		1.00					269,027
		1.00					1,256,982
		1.00					10,955
			1.00				382,870
1.00							125,288
1.00							30,171
1.00							30,048
1.00	1.00						5,485,905
1.00	1.00						2,274
1.00	1.00						35,079
1.00	1.00						22,347
1.00	1.00						106,641
1.00	1.00						3,970
1.00	1.00						2,004
	1.00						2,045,195
	1.00						9,134
	1.00						26,152
	1.00						0
	1.00						10,331
	1.00						190,222
		1.00					858,361
					1.00		2,712,387

Pallets 1,948,206  
Sacks 11,695,508

MPA/USPS-T28-1

Calculation of Lower Bound Estimates of Containers Entered at Destination Facilities

Assumption of percentage of 5-Digit sacks opened and distributed at the DSCF 0%

Destination Entry Assumptions

Containers Entered at non-Destination	DDU	DSCF	DADC	DBMC	OBMC	OADC	OAO/OSCF	Containers Entered at Destination	Containers Entered at non-Destination
220,009	1.00							637	220,009
202,104	1.00							151	202,104
2,508	1.00							0	2,508
123	1.00							0	123
152,481	1.00							188	152,481
1	1.00							0	1
83	1.00							0	83
518	1.00							153	518
122,265	1.00							1,247	122,265
4,180		1.00						8,348	4,180
845		1.00						17,648	845
154,398		1.00						269,027	154,398
606,935		1.00						1,256,982	606,935
5,265		1.00						10,955	5,265
399,262			1.00					382,870	399,262
3,030,378	1.00							125,288	3,030,378
900,509	1.00							30,171	900,509
7,073,498	1.00							30,048	7,073,498
7,932,123	1.00	0.00						489,358	12,928,669
112,398	1.00	0.00						30	114,642
227,904	1.00	0.00						8,608	254,375
43,821	1.00	0.00						17,427	48,741
583,325	1.00	0.00						2,360	687,605
81,437	1.00	0.00						57	85,351
22,808	1.00	0.00						1,538	23,274
18,971,000		1.00						2,045,195	18,971,000
233,635		1.00						9,134	233,635
290,578		1.00						26,152	290,578
9		1.00						0	9
135,546		1.00						10,331	135,546
4,286,648		1.00						190,222	4,286,648
9,454,279			1.00					858,361	9,454,279
2,295,657						1.00		2,712,387	2,295,657

1,870,976  
55,675,552

Pallets  
Sacks

1,948,206  
6,556,667

1,870,976  
60,814,394

RESPONSE OF POSTAL SERVICE WITNESS LOETSCHER (USPS-T-28) TO  
 INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.,  
 REDIRECTED FROM WITNESS TALMO (USPS-T-27)

modified June 6, 2006

**MPA/USPS-T27-1.** Please refer to USPS-LR-L-49 at 19-20; USPS-LR-L-85, Table 1; Table 3 of your testimony (USPS-T-27); and your testimony to page 7, line 17, through page 8, line 1, where you state:

Table 3 demonstrates that Periodicals flat-shaped mail presented by mailers in sacks is more costly to process than mail presented on pallets. The per-piece cost difference is due to differences in productivities for platform and other allied operations associated with unloading mail and moving mail to bundle sort operations at the 'destination' facility. The destination facility refers to the facility at which a pallet or sack is dumped or opened and the bundles or pieces therein are handled separately.

Please also refer to witness McCrery's response to Presiding Officer's Information Request No. 4, Question 6, in Docket No. R2005-1, which stated:

*It should be noted that the [Skin Sack Cost Reduction] estimate is conservative since it reflects only savings at the destination facilities. However, it would be expected that further workhour reductions will be realized at origin facilities with fewer origin sack handlings and through a reduction in the overall network sack sorting workload for Periodicals.*

Finally, please refer to lines 16 through 18 on page 6 of USPS-T-25, which states: "Periodicals that are entered by mailers at origin SCFs or intermediate facilities upstream from the destination SCF must undergo mail processing operations of a bulk transfer type, such as crossdocking, at the non-destination facilities."

\*\*\*

- (g) What percentage of Periodicals Outside County sacks are entered at the "destination" facility as you use the term in your testimony? Please provide citations to data and analyses sufficient to replicate your response.
- (h) What percentage of Periodicals Outside County pallets are entered at the "destination" facility, as you use the term in your testimony? Please provide citations to data and analyses sufficient to replicate your response.
- (i) What percentage of Periodicals Outside County containers are entered at the "destination" facility, as you use the term in your testimony? Please provide citations to data and analyses sufficient to replicate your response.

\*\*\*

RESPONSE OF POSTAL SERVICE WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.,  
REDIRECTED FROM WITNESS TALMO (USPS-T-27)

*modified June 6, 2006*

**RESPONSE:**

(g)-(i) Please reference Table 13 in the Excel workbook accompanying my response to TW/USPS-T28-7-8, which shows container counts by container type, presort level, and entry facility type. While this is the most detailed information available to estimate the requested container counts, it is not completely sufficient for doing so. Counts are requested for containers that are entered at the "destination" facility, which in this context refers to the facility where the container is opened and worked. Container counts in Table 13 are listed by the destination facility of the container level, which are not always the same facility where the container is opened.

For most container presort levels, Table 13 provides the requested counts by container type. It is my understanding that, for example, all ADC containers entered at destination ADC facilities will be opened and worked at these facilities, that MADC containers are usually worked at the OADC, and that SCF and 3-Digit containers at DSCF facilities and all containers entered at DDU facilities will be opened and worked at these facilities.

Complications arise when considering 5-Digit containers. It is my understanding that many flats are processed for incoming secondary schemes at the plant: according to witness McCrery (USPS-T-42), "...59 percent of flat mail incoming secondary (non carrier-route presort) volume was processed in the plants...."

RESPONSE OF POSTAL SERVICE WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.,  
REDIRECTED FROM WITNESS TALMO (USPS-T-27)  
**modified June 6, 2006**

Consequently, it is my understanding that in Table 13 some of the 5-Digit containers entered at destination SCF facilities are opened and worked there while others are transported to the delivery unit for processing.

It is also my understanding that it would not be strictly appropriate to apply the 59 percent share to such 5-Digit containers for two reasons. First, this proportion refers to all flats, not just Periodicals flats. If, for example, the share of 5-Digit prepared Standard Mail flats processed in the plants is greater than 59 percent, then the share for Periodicals would necessarily be less, all else being equal.

Second, it is my understanding the proportion in USPS-T-42 refers to volume and not containers. Containers such as 5-Digit Scheme, 5-Digit Merged, and Metro Scheme containers may demonstrate a different share of plant versus delivery unit secondary processing than ordinary 5-Digit containers. With varying pieces per container, without knowing the plant processed share for these containers it is not possible to estimate the plant processed share of ordinary 5-Digit containers.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER  
(USPS-T-28) TO INTERROGATORY OF THE ASSOCIATION FOR POSTAL  
COMMERCE AND THE MAILING AND FULFILLMENT SERVICE ASSOCIATION

**POSTCOM/USPS-T28-1.** Please refer to USPS-LR-L-33 at 13 where you state “the hybrid distribution is produced by controlling the ... distribution of UFSM1000 flats by presort rate to the entry profile or profiles of parcels.”

a. In developing your hybrid distribution, did you assume that the presort rules for Standard Mail hybrid flats are likely to be the same as the current presort requirements for Standard Mail UFSM1000 flats? If not, please explain in detail your assumptions regarding the presort requirements that will apply to hybrid flats.

b. In developing your hybrid distribution, did you assume that the presort requirements for Standard Mail hybrid parcels are likely to be the same as the current presort rules for Standard Mail UFSM1000 flats? If not, please explain in detail your assumptions regarding the presort requirements that will apply to hybrid parcels.

c. Please confirm that the distribution estimates set forth in your library references project that the majority of Standard Mail NFMs are “hybrid parcels.” If not confirmed, please explain your answer fully.

**RESPONSE**

a-b. In the development of the hybrid distribution in USPS-LR-L-33 no explicit assumptions were made concerning the presort requirements for hybrid parcels or hybrid flats. In the development of the hybrid distributions the two assumptions made were the use of the FY 2005 entry discount distribution of Standard parcels for the entry discount distribution of hybrid pieces and the use of the presort distribution of Standard UFSM 1000 flats from USPS-LR-L-92 for the presort distribution of hybrid pieces.

c. Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS LOETSCHER  
TO POIR NO. 8, QUESTION 1(C)

1. The purpose of this question is to clarify witness Tang's responses to MPA/USPS-T35-1(f) and MPA/USPS-T35-10.  
\*\*\*
  - c. Please provide a breakdown of the Periodicals flats volume shown in Table 3 of USPS-LR-L-91 by the container types shown on page 8 of USPS-LR-L-91.

**RESPONSE:**

Please see the attached xls file - Question 1c Attachment.xls -- and the following attached pages.

**PERIODICALS MAIL FLATS MAIL CHARACTERISTICS DATA**

Prior to Distribution to Modeled Elements

RATE CATEGORY	MACHINABILITY	CONTAINER PRESORT	PACKAGE PRESORT	PALLET VOLUME	SACK VOLUME	2 Ft Tray VOLUME	1 FT Tray VOLUME	EMM VOLUME	Other Tray VOLUME	Bedload/Bundle/Flat Tub VOLUME	Total VOLUME
Nonauto Basic Presort Flats	AFSM100	Mixed ADC	Mixed ADC		14,459,804		780,017	15,628		1,697,654	16,937,103
Nonauto Basic Presort Flats	AFSM100	Mixed ADC	ADC		21,245,005		1,418,212	6,034			22,669,252
Nonauto Basic Presort Flats	AFSM100	Mixed ADC	3-Digit		13,542,642		1,028,204	204			14,571,050
Nonauto Basic Presort Flats	AFSM100	Mixed ADC	5-Digit		2,106,907		354,553				2,461,460
Nonauto Basic Presort Flats	AFSM100	Mixed ADC	Firm		4,392,998						4,392,998
Nonauto Basic Presort Flats	AFSM100	BMC/ADC	ADC	565,394	19,132,203					3,631,485	23,529,081
Nonauto Basic Presort Flats	AFSM100	BMC/ADC	3-Digit	32,843	24,660,150						24,692,993
Nonauto Basic Presort Flats	AFSM100	BMC/ADC	5-Digit		4,971,049						4,971,049
Nonauto Basic Presort Flats	AFSM100	BMC/ADC	Firm	615,375	5,553,487						6,168,863
Nonauto Basic Presort Flats	AFSM100	3-Digit	3-Digit	94,919	7,847,494						7,942,413
Nonauto Basic Presort Flats	AFSM100	3-Digit	5-Digit	14,764	1,264,725						1,279,488
Nonauto Basic Presort Flats	AFSM100	3-Digit	Firm	21,228	2,628,528						2,649,756
Nonauto Basic Presort Flats	AFSM100	5-Digit	5-Digit		6,563						6,563
Nonauto Basic Presort Flats	AFSM100	5-Digit	Firm		739,755						739,755
Nonauto Basic Presort Flats	AFSM100	Carrier Route	Firm		1,292,939						1,292,939
Nonauto Basic Presort Flats	UFSM1000	Mixed ADC	Mixed ADC		1,973,139						1,973,139
Nonauto Basic Presort Flats	UFSM1000	Mixed ADC	ADC		5,187,493						5,187,493
Nonauto Basic Presort Flats	UFSM1000	Mixed ADC	3-Digit		3,213,602	433,986					3,647,588
Nonauto Basic Presort Flats	UFSM1000	Mixed ADC	5-Digit		249,321						249,321
Nonauto Basic Presort Flats	UFSM1000	Mixed ADC	Firm		2,208,047						2,208,047
Nonauto Basic Presort Flats	UFSM1000	BMC/ADC	ADC	788,560	4,658,828					246,204	5,693,592
Nonauto Basic Presort Flats	UFSM1000	BMC/ADC	3-Digit	7,803	7,331,559	233,685					7,573,046
Nonauto Basic Presort Flats	UFSM1000	BMC/ADC	5-Digit	22,209	1,048,070						1,070,279
Nonauto Basic Presort Flats	UFSM1000	BMC/ADC	Firm	307,809	496,894						804,703
Nonauto Basic Presort Flats	UFSM1000	3-Digit	3-Digit	5,150	3,194,490						3,199,640
Nonauto Basic Presort Flats	UFSM1000	3-Digit	5-Digit	28,288	301,458						329,746
Nonauto Basic Presort Flats	UFSM1000	3-Digit	Firm	175,797	1,795,484						1,971,281
Nonauto Basic Presort Flats	UFSM1000	5-Digit	Firm	2,060							2,060
<b>Total</b>				<b>2,682,198</b>	<b>155,696,633</b>	<b>667,671</b>	<b>3,580,987</b>	<b>21,866</b>	<b>0</b>	<b>5,565,343</b>	<b>168,214,696</b>
Nonauto 3-Digit Presort Flats	AFSM100	Mixed ADC	3-Digit		5						5
Nonauto 3-Digit Presort Flats	AFSM100	Mixed ADC	Firm		1,229						1,229
Nonauto 3-Digit Presort Flats	AFSM100	BMC/ADC	3-Digit	11,102,351							11,102,351
Nonauto 3-Digit Presort Flats	AFSM100	BMC/ADC	Firm	2,777,333	1,401						2,778,734
Nonauto 3-Digit Presort Flats	AFSM100	3-Digit	3-Digit	12,471,788	66,537,025						79,008,812
Nonauto 3-Digit Presort Flats	AFSM100	3-Digit	5-Digit		8,541,997						8,541,997
Nonauto 3-Digit Presort Flats	AFSM100	3-Digit	Firm	1,471,879	4,655,289						6,127,168
Nonauto 3-Digit Presort Flats	AFSM100	5-Digit	Firm	6,941							6,941
Nonauto 3-Digit Presort Flats	AFSM100	Carrier Route	Firm		641						641
Nonauto 3-Digit Presort Flats	UFSM1000	Mixed ADC	3-Digit		815						815
Nonauto 3-Digit Presort Flats	UFSM1000	Mixed ADC	Firm		45						45
Nonauto 3-Digit Presort Flats	UFSM1000	BMC/ADC	3-Digit	8,449,736	2,478						8,452,213
Nonauto 3-Digit Presort Flats	UFSM1000	BMC/ADC	Firm	7,299,260	77						7,299,337
Nonauto 3-Digit Presort Flats	UFSM1000	3-Digit	3-Digit	7,272,767	30,810,614	1,199,849					39,283,229
Nonauto 3-Digit Presort Flats	UFSM1000	3-Digit	5-Digit		5,554,131						5,554,131
Nonauto 3-Digit Presort Flats	UFSM1000	3-Digit	Firm	2,225,748	1,884,723						4,110,472
Nonauto 3-Digit Presort Flats	UFSM1000	5-Digit	Firm	2,203							2,203
<b>Total</b>				<b>53,080,005</b>	<b>117,990,468</b>	<b>1,199,849</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>172,270,322</b>

**PERIODICALS MAIL FLATS MAIL CHARACTERISTICS DATA**

Prior to Distribution to Modeled Elements

<u>RATE CATEGORY</u>	<u>MACHINABILITY</u>	<u>CONTAINER PRESORT</u>	<u>PACKAGE PRESORT</u>	<u>PALLET VOLUME</u>	<u>SACK VOLUME</u>	<u>2 Ft Tray VOLUME</u>	<u>1 FT Tray VOLUME</u>	<u>EMM VOLUME</u>	<u>Other Tray VOLUME</u>	<u>Bedload/Bundle/Flat Tub VOLUME</u>	<u>Total VOLUME</u>
Nonauto 5-Digit Presort Flats	AFSM100	Mixed ADC	Firm		10						10
Nonauto 5-Digit Presort Flats	AFSM100	BMC ADC	5-Digit	17,054,915							17,054,915
Nonauto 5-Digit Presort Flats	AFSM100	BMC ADC	Firm	1,303,019	69						1,303,088
Nonauto 5-Digit Presort Flats	AFSM100	3-Digit	5-Digit	75,379,020	8,833						75,387,853
Nonauto 5-Digit Presort Flats	AFSM100	3-Digit	Firm	3,866,678	9,101						3,875,779
Nonauto 5-Digit Presort Flats	AFSM100	5-Digit	5-Digit	1,969,038	33,985,309				1,835,395		37,789,742
Nonauto 5-Digit Presort Flats	AFSM100	5-Digit	Firm	145,393	677,206						822,599
Nonauto 5-Digit Presort Flats	AFSM100	Carrier Route	5-Digit		2,571,998						2,571,998
Nonauto 5-Digit Presort Flats	AFSM100	Carrier Route	Firm		19,358						19,358
Nonauto 5-Digit Presort Flats	UFSM1000	Mixed ADC	5-Digit		10						10
Nonauto 5-Digit Presort Flats	UFSM1000	BMC ADC	5-Digit	10,889,553	40						10,889,593
Nonauto 5-Digit Presort Flats	UFSM1000	BMC ADC	Firm	2,462,414							2,462,414
Nonauto 5-Digit Presort Flats	UFSM1000	3-Digit	3-Digit		117						117
Nonauto 5-Digit Presort Flats	UFSM1000	3-Digit	5-Digit	35,268,222	417						35,268,638
Nonauto 5-Digit Presort Flats	UFSM1000	3-Digit	Firm	2,520,037	22						2,520,059
Nonauto 5-Digit Presort Flats	UFSM1000	5-Digit	5-Digit	708,582	31,997,121	486,144					33,191,847
Nonauto 5-Digit Presort Flats	UFSM1000	5-Digit	Firm	108,574	277,430						386,005
Nonauto 5-Digit Presort Flats	UFSM1000	Carrier Route	5-Digit		42,393						42,393
Nonauto 5-Digit Presort Flats	UFSM1000	Carrier Route	Firm		332						332
<b>Total</b>				<b>151,675,443</b>	<b>69,589,766</b>	<b>486,144</b>	<b>0</b>	<b>0</b>	<b>1,835,395</b>	<b>0</b>	<b>223,586,748</b>
Nonauto Carrier Route Presort Flats	AFSM100	BMC ADC	5-Digit	5							5
Nonauto Carrier Route Presort Flats	AFSM100	BMC ADC	Carrier Route	103,969,465							103,969,465
Nonauto Carrier Route Presort Flats	AFSM100	BMC ADC	Firm	750,238							750,238
Nonauto Carrier Route Presort Flats	AFSM100	3-Digit	Carrier Route	2,507,951,353							2,507,951,353
Nonauto Carrier Route Presort Flats	AFSM100	3-Digit	Firm	8,427,819							8,427,819
Nonauto Carrier Route Presort Flats	AFSM100	5-Digit	Carrier Route	658,907,523	13,589,566						672,497,090
Nonauto Carrier Route Presort Flats	AFSM100	5-Digit	Firm	2,468,053	301,971						2,770,024
Nonauto Carrier Route Presort Flats	AFSM100	Carrier Route	Carrier Route		156,382,769					5,121,231	161,504,000
Nonauto Carrier Route Presort Flats	AFSM100	Carrier Route	Firm		808,087						808,087
Nonauto Carrier Route Presort Flats	UFSM1000	BMC ADC	Carrier Route	21,126,666							21,126,666
Nonauto Carrier Route Presort Flats	UFSM1000	BMC ADC	Firm	202,775							202,775
Nonauto Carrier Route Presort Flats	UFSM1000	3-Digit	Carrier Route	337,135,601							337,135,601
Nonauto Carrier Route Presort Flats	UFSM1000	3-Digit	Firm	863,691							863,691
Nonauto Carrier Route Presort Flats	UFSM1000	5-Digit	Carrier Route	76,151,826	2,031,406						78,183,231
Nonauto Carrier Route Presort Flats	UFSM1000	5-Digit	Firm	172,460	11,598						184,057
Nonauto Carrier Route Presort Flats	UFSM1000	Carrier Route	Carrier Route		42,257,378					3,239,282	45,496,659
Nonauto Carrier Route Presort Flats	UFSM1000	Carrier Route	Firm		104,808						104,808
<b>Total</b>				<b>3,718,127,474</b>	<b>215,487,582</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,360,513</b>	<b>3,941,975,569</b>

**PERIODICALS MAIL FLATS MAIL CHARACTERISTICS DATA**

Prior to Distribution to Modeled Elements

<u>RATE CATEGORY</u>	<u>MACHINABILITY</u>	<u>CONTAINER PRESORT</u>	<u>PACKAGE PRESORT</u>	<u>PALLET VOLUME</u>	<u>SACK VOLUME</u>	<u>2 Ft Tray VOLUME</u>	<u>1 FT Tray VOLUME</u>	<u>EMM VOLUME</u>	<u>Other Tray VOLUME</u>	<u>Bedload/Bundle/Flat Tub VOLUME</u>	<u>Total VOLUME</u>
Auto Basic Presort Flats	AFSM100	Mixed ADC	Mixed ADC		9,010,963						9,010,963
Auto Basic Presort Flats	AFSM100	Mixed ADC	ADC		47,759,357						47,759,357
Auto Basic Presort Flats	AFSM100	Mixed ADC	3-Digit		1,411,671						1,411,671
Auto Basic Presort Flats	AFSM100	Mixed ADC	Firm		848						848
Auto Basic Presort Flats	AFSM100	BMC/ADC	ADC	1,796,727	64,843,110						66,639,838
Auto Basic Presort Flats	AFSM100	BMC/ADC	Firm	170	1,632						1,202
Auto Basic Presort Flats	AFSM100	3-Digit	3-Digit		257						257
Auto Basic Presort Flats	AFSM100	3-Digit	5-Digit	36,737	2,222						38,958
Auto Basic Presort Flats	AFSM100	3-Digit	Firm	253	9						261
Auto Basic Presort Flats	AFSM100	5-Digit	5-Digit	21	14,397						14,419
Auto Basic Presort Flats	AFSM100	5-Digit	Firm		43						43
Auto Basic Presort Flats	UFSM1000	Mixed ADC	Mixed ADC		2,876,353						2,876,353
Auto Basic Presort Flats	UFSM1000	Mixed ADC	ADC		13,087,664						13,087,664
Auto Basic Presort Flats	UFSM1000	Mixed ADC	3-Digit		78,714						78,714
Auto Basic Presort Flats	UFSM1000	Mixed ADC	5-Digit		236						236
Auto Basic Presort Flats	UFSM1000	Mixed ADC	Firm		55						55
Auto Basic Presort Flats	UFSM1000	BMC/ADC	ADC	600,316	9,821,721						10,422,038
Auto Basic Presort Flats	UFSM1000	BMC/ADC	5-Digit		1,678						1,678
Auto Basic Presort Flats	UFSM1000	BMC/ADC	Firm	88	141						229
Auto Basic Presort Flats	UFSM1000	3-Digit	5-Digit		22,777						22,777
<b>Total</b>				<b>2,434,312</b>	<b>148,933,448</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>151,367,760</b>
Auto 3-Digit Presort Flats	AFSM100	Mixed ADC	3-Digit		32,068,824						32,068,824
Auto 3-Digit Presort Flats	AFSM100	BMC/ADC	3-Digit	159,637,695	117,031,760						276,669,455
Auto 3-Digit Presort Flats	AFSM100	3-Digit	3-Digit	118,338,251	415,699,814						534,038,065
Auto 3-Digit Presort Flats	UFSM1000	Mixed ADC	3-Digit		5,571,732						5,571,732
Auto 3-Digit Presort Flats	UFSM1000	BMC/ADC	3-Digit	43,049,316	19,344,706						62,394,022
Auto 3-Digit Presort Flats	UFSM1000	3-Digit	3-Digit	32,285,711	94,993,854						127,279,566
<b>Total</b>				<b>353,310,974</b>	<b>684,710,690</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,038,021,663</b>
Auto 5-Digit Presort Flats	AFSM100	Mixed ADC	5-Digit		6,739,811						6,739,811
Auto 5-Digit Presort Flats	AFSM100	BMC/ADC	5-Digit	361,871,007	20,256,906						382,127,913
Auto 5-Digit Presort Flats	AFSM100	3-Digit	5-Digit	1,286,606,304	249,208,314						1,535,814,618
Auto 5-Digit Presort Flats	AFSM100	5-Digit	5-Digit	9,620,360	151,323,285				1,870,518		162,814,163
Auto 5-Digit Presort Flats	AFSM100	5-Digit	Firm		165,737						165,737
Auto 5-Digit Presort Flats	AFSM100	Carrier Route	5-Digit		6,029,770						6,029,770
Auto 5-Digit Presort Flats	UFSM1000	Mixed ADC	5-Digit		1,188,293						1,188,293
Auto 5-Digit Presort Flats	UFSM1000	BMC/ADC	5-Digit	74,224,702	2,495,965						76,720,667
Auto 5-Digit Presort Flats	UFSM1000	3-Digit	5-Digit	242,922,957	65,454,767						308,377,724
Auto 5-Digit Presort Flats	UFSM1000	5-Digit	5-Digit	2,699,671	27,656,986				1,536,922		31,893,579
Auto 5-Digit Presort Flats	UFSM1000	Carrier Route	5-Digit		10,961						10,961
Auto 5-Digit Presort Flats	UFSM1000	Carrier Route	Firm		2,101						2,101
<b>Total</b>				<b>1,977,945,000</b>	<b>530,532,895</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,407,440</b>	<b>2,511,885,335</b>

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION

**PSA/USPS-T28-1.** Please refer to page 13 of USPS-LR-L-33 where it states: "For rate design and evaluation it is necessary to develop estimates of the distribution of non-flat nonletter pieces by proposed rate element. However, data to accomplish this does not exist. A procedure of estimating joint distributions from two marginal distributions is developed to provide reasonable estimates for parcels. The procedure first takes the FY 05 distribution of Standard parcels by presort rate and entry discount then applies assumptions regarding the distribution across preparation levels (e.g. 90 percent of non-machinable 3/5D DBMC Standard parcels are prepared in 3-Digit sacks – 10 percent are prepared in 5-Digit sacks). Then it is assumed that 70 percent of Standard parcels are machinable. The distributions across preparation/entry levels are controlled first to the FY 05 presort/rate distribution then to the assumed distribution by machinability. This process is repeated until the two distributions converge. The hybrid distribution is produced by controlling the LR-L-92 distribution of UFSM 1000 flats by presort rate to the entry profile of parcels. The results of these exercises appear in Table 4."

(a) Please provide a list of all assumptions made to "map" the FY 05 distribution of Standard parcels by presort rate and entry discount into the proposed rate elements.

(b) Please explain the basis of each assumption specified in your response to subpart (a) of this interrogatory.

**RESPONSE:**

(a)- (b)

The following assumptions were made in the construction of the initial distribution of machinable parcels across rate element.

- 1) Basic machinable parcels are not eligible for entry discounts.
- 2) All Origin entered Basic machinable parcels would pay Mixed BMC rates.
- 3) All Origin entered 3/5 Digit machinable parcels would pay BMC rates.
- 4) All DBMC entered 3/5 Digit would pay BMC rates.
- 5) All DSCF entered 3/5 Digit machinable parcels would pay 5-Digit rates.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION

**RESPONSE TO PSA/USPS-T28-1 (continued)**

The following assumptions were made in the construction of the initial distribution of non-machinable parcels across rate element.

- 1) 10 percent of Origin entered Basic non-machinable parcels would pay MADC rates.
- 2) 90 percent of Origin entered Basic non-machinable parcels would pay ADC rates.
- 3) 10 percent of Origin entered 3/5 Digit non-machinable parcels would pay 5-Digit rates.

---

- 4) 90 percent of Origin entered 3/5 Digit non-machinable parcels would pay 3-Digit rates.

---

- 5) 10 percent of DBMC entered Basic non-machinable parcels would pay MADC rates.
- 6) 90 percent of DBMC entered Basic non-machinable parcels would pay ADC rates.
- 7) 10 percent of DBMC entered 3/5 Digit non-machinable parcels would pay 5-Digit rates.
- 8) 90 percent of DBMC entered 3/5 Digit non-machinable parcels would pay 3-Digit rates.
- 9) All DSCF entered Basic non-machinable parcels would pay the ADC rate.
- 10) 10 percent of DSCF entered 3/5 Digit non-machinable parcels would pay 5-Digit rates.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION

**RESPONSE TO PSA/USPS-T28-1 (continued)**

11) 90 percent of DSCF entered 3/5 Digit non-machinable parcels would pay 3-Digit rates.

12) All DDU entered non-machinable parcels would pay the 5-Digit rate.

To obtain an estimate of the proportion of Standard mail that is machinable it is assumed that all barcoded parcels are machinable and that 70% of machinable mail is barcoded.

Most of these assumptions were made using the current DMM preparation rules as a guide. In cases where rate eligibility was not implied by DMM preparation rules, e.g. the proportion of 3/5 Digit mail presorted to 5-Digit level vs. the proportion presorted to the 3-Digit, I was provided a subjective estimate by Postal Service personnel familiar with Standard parcels.

---

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION

**PSA/USPS-T28-2.** Please refer to the Survey Instrument provided in USPS-LRL-33 and also to USPS-LR-L-33, Table 4.

- (a) Please define "Parcel" preparation as the term is used in the survey instrument.
- (b) Controlled to FY 2005 RPW values, how many Standard Mail pieces were recorded as both "Parcel" preparation and as being less than 3/4" thick?

**RESPONSE:**

- (a) The preparation field on the survey instrument was included for the sole purpose of aiding data collectors in the length measurement. For boxed, enveloped, single sheet, wrapped and sleeved pieces the length was the measurement of the longest side. For bound and folded pieces the length was the measurement parallel to the final fold. "Parcel" was indicated when the piece was non-letter and non-flat (DMM 101 definitions) or if the piece was "boxed". The presence of a "Parcel" indication in the preparation field only indicates the length was the measurement of the longest side and the piece was not bound or folded. A value of "Parcel" in the preparation field does not indicate the piece was a parcel under any definition. The field was not used for any other purpose or in any subsequent analysis.
- (b) Inflated to RPW, 220,307,088 pieces were recorded as having a preparation of "Parcel" and were less than 3/4" thick. As the purpose of the preparation field on the survey instrument was only intended to guide the data collectors in the measurement of length I cannot ascribe any meaning to this number.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-1** Please refer to the Periodicals data collection effort described in LR-L-91, which you sponsor. You describe this data collection as including (1) a national survey of publications with circulation size less than 15,000 pieces and (2) a collection of mail.dat files from the PostalOne electronic verification system.

- a. Please confirm that the national survey of small publications is the same as the one that you described in LR-K-91 and your testimony in Docket No. R2005-1. If they are not the same, please explain all differences.
- b. Are the mail.dat files you refer to the same as the ones you referred to collecting in LR-K-91? If no, please explain whether they were (1) added to the ones you had collected earlier; or (2) used to replace the older set of mail.dat files.
- c. Please refer to Tables 1 and 2 in LR-L-91. There appear to be inconsistencies between some of the rows in the two tables. For example, Stratum 30, defined as over 300K circulation, high density, low dropship and high palletization, is shown in Table 1 as including 580 publications, versus only 44 in Table 2. Similarly, the highest stratum volume, of 4,565,897,017, appears in stratum 27 in Table 1 but in stratum 28 in Table 2. Please provide correct and consistent versions of the two tables.
- d. Do the volumes shown for the different strata in Tables 1 and 2 of LR-L-91 represent flat shaped pieces only or do they represent all Periodicals outside county pieces? Do the publication counts represent all outside county Periodicals or only those that are flats shaped?
- e. What year do the volumes in Tables 1&2 represent?

**RESPONSE:**

- a) Confirmed.
- b) No. The Mail.dat files used in LR-L-91 were collected through the PostalOne electronic verification system between October 2004 and September 2005. These replaced the older files used in LR-L-91.
- c) Errata will be filed with corrected tables.
- d-e) The volumes in Tables 1 and 2 are FY 2005 Outside County volumes as

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

reported on 3541 postage statements and recorded in PostalOne. These volumes include all shapes but exclude volumes for publications for which no issue *frequency information* was available and publications entering mail at facilities that are not on the PostalOne system.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-2** Please refer to Table 3 in LR-L-91.

- a. Please confirm that the piece volumes shown in that table represent flat shaped mail only. If not, please explain.
- b. The table identifies all volumes as either AFSM-100 or UFSM-1000 machinable. Please state whether this represents:
  - (1) an assumption on your or the Postal Service's part that all flats are UFSM1000 machinable if they are not AFSM-100 machinable;
  - (2) that flats which are not UFSM-100 machinable have not been counted; or
  - (3) any other (please explain fully).
- c. Did your data collection include counts of outside county letter shaped and other non-flat pieces? If no, why not? If yes, please provide counts of (1) letters and (2) other non-flat outside county pieces corresponding to the flats volumes in Table 3, and broken down by rate category, bundle and container presort level, container type and automation compatibility.

**RESPONSE:**

- a) Confirmed.
- b) In the preparation of Table 3 it was assumed that all pieces that are not AFSM 100 compatible were UFSM 1000 compatible.
- c) Information was collected for letter shaped Outside County Periodicals. The letter estimates are provided in Table 1 in the Excel workbook accompanying this response. Parcel shaped Outside County Periodicals were excluded because the parcel volume (0.4 percent) did not warrant the expense of a targeted data collection effort.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-3** Please refer to the 30 strata of publications in Tables 1 and 2 of LR-L-91. For each stratum, please provide the following additional information.

- a. How many of the total number of publications indicated in each stratum are, respectively:
  - (1) Science of Agriculture publications;
  - (2) Regular rate and not Science of Agriculture;
  - (3) Nonprofit; and
  - (4) Classroom publications?
- b. What portion of the total volume indicated in each stratum is from, respectively:
  - (1) Science of Agriculture publications;
  - (2) Regular rate and not Science of Agriculture;
  - (3) Nonprofit; and
  - (4) Classroom publications?
- c. Of the total number of publications indicated in each stratum, how many also mail at in-county rates?
- d. How many of the publications indicated in each stratum are, respectively:
  - (1) daily publications
  - (2) weekly
  - (3) biweekly
  - (4) monthly or less frequent?
- e. What portion of the total volume indicated in each stratum is from, respectively:
  - (1) daily publications
  - (2) weekly
  - (3) biweekly
  - (4) monthly or less frequent?
- f. How many of the publications indicated in each stratum are, respectively:
  - (1) letter shaped
  - (2) flats shaped
  - (3) neither letter nor flats shaped?

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

- g. What portion of the total volume indicated in each stratum is, respectively:
- (1) letter shaped
  - (2) flats shaped
  - (3) neither letter nor flats shaped?

**RESPONSE:**

- a) Please see Table 2 in the Excel workbook accompanying this response. Publications are mapped to subclass based on the subclass where they report the majority of pieces. The number of strata in Table 2 has been expanded to 36 with the 1 to 5000 piece strata divided between 1 – 1000 piece strata and 1000 - 5000 piece strata in response to the information sought in TW/USPS-T-28-11.
- b) Please see Table 3 in the Excel workbook accompanying this response. The number of strata in Table 3 has been expanded to 36 with the 1 to 5000 piece strata divided between 1 – 1000 piece strata and 1000 - 5000 piece strata in response to the information sought in TW/USPS-T-28-11.
- c) Please see Table 4 in the Excel workbook accompanying this response. The number of strata in Table 4 has been expanded to 36 with the 1 to 5000 piece strata divided between 1 – 1000 piece strata and 1000 - 5000 piece strata in response to the information sought in TW/USPS-T-28-11.
- d) Please see Table 5 in the Excel workbook accompanying this response. The number of strata in Table 5 has been expanded to 36 with the 1 to

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

5000 piece strata divided between 1 – 1000 piece strata and 1000 - 5000 piece strata in response to the information sought in TW/USPS-T-28-11.

- e) Please see Table 6 in the Excel workbook accompanying this response. The number of strata in Table 6 has been expanded to 36 with the 1 to 5000 piece strata divided between 1 – 1000 piece strata and 1000 - 5000 piece strata in response to the information sought in TW/USPS-T-28-11.
- f) Please see Table 7 in the Excel workbook accompanying this response. Publications are mapped to shape based on the shape of the majority of pieces. The number of strata in Table 7 has been expanded to 36 with the 1 to 5000 piece strata divided between 1 – 1000 piece strata and 1000 - 5000 piece strata in response to the information sought in TW/USPS-T-28-11.
- g) Please see Table 8 in the Excel workbook accompanying this response. The number of strata in Table 8 has been expanded to 36 with the 1 to 5000 piece strata divided between 1 – 1000 piece strata and 1000 - 5000 piece strata in response to the information sought in TW/USPS-T-28-11.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-4**

- a. Please confirm that the Periodicals mail characteristics data in Table 3 of LR-L-91 were established by first developing the corresponding information for each of the 30 strata described in Tables 1 and 2. Please explain if not confirmed.
- b. Please explain how you aggregated the stratum data to national estimates and how you adjusted the results to match known billing determinant data.
- c. Did you adjust the mail characteristics data in each stratum to match the billing determinant data in that stratum before aggregating to the total data in Table 3?
- d. Please provide, in spreadsheet form, the mail characteristics data corresponding to Table 3, for each individual stratum.

**RESPONSE:**

- a) Confirmed subject to the availability of observations in a stratum. If no observations were available in stratum the stratum volume was distributed as described in parts b-c of this response.
- b-c) Sample pieces were first aggregated by shape, stratum, presort rate category and piece attribute. Piece attribute includes machinability, bundle presort level, container type, container presort level, container entry facility type, parent container status (on parent container or not), parent container type, parent container presort level, and parent container entry facility type. Then the PostalOne mailing statement volumes for strata with no sample observations were distributed to nearest populated strata with similar density, entry and palletization characteristics, i.e. 19 to 13, 29 to 23, 27 to 21 and 25 to 13. Then by shape, stratum and presort rate

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

category the distribution across piece attribute was controlled to PostalOne mailing statement volume.

The PostalOne mailing statement data is not a complete census of Outside County Periodicals and not all publications could be mapped to one of the 30 strata. For this reason, the difference between PostalOne mailing statement data and the RPW by Shape data (USPS-LR-L-87) was distributed to strata proportional to the PostalOne mailing statement volume in each stratum by presort rate category.

The final control was conducted at the national level. This control distributed the roughly 25 million flats that arrive in non-standard containers (trays, tubs, loose bundles etc.) to sacks and pallets by removing this volume then controlling the remaining volume to RPW by Shape volume. This step was undertaken so as not to force the mail processing cost models to be unnecessary complex.

- d) Please see Table 9 in the Excel workbook accompanying this response.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-5** For each of the 30 strata of publications in Tables 1 and 2 in LR-L-91, please provide the following in a spreadsheet format:

- a. What is the annual number of (1) advertising pounds and (2) editorial pounds corresponding to the total piece volume indicated for the given stratum?
- b. What percent of the advertising pounds in the given stratum is entered in each postal zone?
- c. Please assume that for any given publication, the editorial pounds have the same zone distribution as the advertising pounds. Based on that assumption, please provide an estimate of the percent distribution of editorial pounds in each stratum by the postal zones in which they are entered.

**RESPONSE:**

- a-c) Please see Tables 10 and Table 11 in the Excel workbook accompanying this response. The number of strata in Table 8 has been expanded to 36 with the 1 to 5000 piece strata divided between 1 – 1000 piece strata and 1000 - 5000 piece strata in response to the information sought in TW/USPS-T-28-11.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-6** For each of the 30 strata of publications in Tables 1 and 2 in LR-L-91, please provide, in a spreadsheet format, the percentages of the outside county addressed pieces in the given stratum that qualify, under current rates, for each of the following discounts:

- (1) the editorial piece discount
- (2) the per-piece DDU dropship discount
- (3) the per-piece DSCF dropship discount
- (4) the per-piece DADC dropship discount
- (5) the per-piece pallet discount
- (6) the per-piece pallet dropship discount.

**RESPONSE:**

Please see Table 12 in the Excel workbook accompanying this response. The number of strata in Table 8 has been expanded to 36 with the 1 to 5000 piece strata divided between 1 – 1000 piece strata and 1000 - 5000 piece strata in response to the information sought in TW/USPS-T-28-11.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-7** For each of the 30 strata of publications in Tables 1 and 2 in LR-L-91, please provide, in a spreadsheet format, annualized estimates of the number of pallets used by outside county periodicals. Please break down the pallet count in each stratum by (1) pallet presort level and (2) type of entry point.

For presort level, please use the categories applicable to pallets that are specified for the "container level" parameter in Container Summary Records under the mail.dat specifications that applied. For type of entry point, please use the applicable (to Periodicals with domestic destination) categories specified under the "Entry Point for Entry Discount – Facility Type" parameter in the specifications for Container Summary Records.

**RESPONSE:**

Please see Table 13 in the Excel workbook accompanying this response. In the course of the study we determined that the "Entry Point for Entry Discount – Facility Type" was not universally used or accurate. We relied on the combination of this field, the entry discounts given in the container quantity record, origin ZIP, destination ZIP, and parent container level to determine the facility type that would first handle each container.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-8** For each of the 30 strata of publications in Tables 1 and 2 in LR-L-91, please provide, in a spreadsheet format, annualized estimates of the number of sacks used by outside county periodicals. Please break down the sack count by (1) sack presort level and (2) type of entry point.

For presort level, please use the categories applicable to sacks that are specified for the "container level" parameter in Container Summary Records under the mail.dat specifications that applied. For type of entry point, please use the applicable (to Periodicals with domestic destination) categories specified under the "Entry Point for Entry Discount – Facility Type" parameter in the specifications for Container Summary Records.

**RESPONSE:**

Please see Table 13 in the Excel workbook accompanying this response. In the course of the study we determined that the "Entry Point for Entry Discount – Facility Type" was not universally used or accurate. We relied on the combination of this field, the entry discounts given in the container quantity record, origin ZIP, destination ZIP, and parent container level to determine the facility type that would first handle each container.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-9** For each of the 30 strata of publications in Tables 1 and 2 in LR-L-91, please provide, in a spreadsheet format, annualized estimates of the number of outside county Periodicals bundles in the given stratum. Please break down the bundle counts by: (1) bundle presort level; (2) container type (e.g., sack or pallet); and (3) presort level of the container in which the bundle is entered into the postal system.

For bundle presort level, please use the applicable categories specified for the "package level" parameter in Package Quantity Records under the mail.dat specifications that applied. For container presort level, please use the categories indicated in the preceding two interrogatories.

**RESPONSE:**

Please see Table 14 in the Excel workbook accompanying this response.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-10** If you believe that the number and characteristics of sacks in the test year will be significantly different from what it was when you performed the LR-L-91 data collection, due to imposition of the 24-piece sack minimum and other factors, then please provide, either in the aggregate or per stratum or both, alternative estimates of sacks by sack presort level and type of entry point for the test year, in a format similar to that used in responding to TW/USPS-T28-8.

**RESPONSE:**

Publications have many options regarding how to respond to the imposition of the 24-piece sack minimum such as seeking co-palletization or simply moving to lower presorted sacks. The configuration, number of sacks and entry after the rule change will depend on many variables that I simply do not know. I have no solid information that would allow me to improve upon witness Tang's estimate of reduction of sacks.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-11** Please refer to the six Periodicals strata in Tables 1 and 2 of LR-L-91 that correspond to publications with circulation below 5,000. Please define substrata of these corresponding to publications with circulation under 1000, provide volumes and counts for each of those substrata similar to the strata information in Tables 1&2, and provide information on each substratum corresponding to that provided in the responses to TW/USPS-T28-3 through 9.

**RESPONSE:**

Please see Tables 15 - 17 in the Excel workbook accompanying this response and Tables 2 – 8 and 10 – 12 where I have included separate tabulations of the 0-1000 strata. Please note that the inclusion of an additional 6 stratum will result in slightly different estimates in Tables 15 – 17 due to the final control process and the distribution of mail in non-standard containers.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-12** In your response to TW/USPS-T28-1 d-e you state:

“The volumes in Tables 1 and 2 are FY 2005 Outside County volumes as reported on 3541 postage statements and recorded in PostalOne. These volumes include all shapes but exclude volumes for publications for which no issue frequency information was available and publications entering mail at facilities that are not on the PostalOne system.”

- a. Please confirm that sum of the sampling “universe” over all strata in Table 2 of LR-L-91 is 8,155,579,420, and that this is also the sum of all strata volumes indicated in the spreadsheet filed with your response to TW/USPS-T28-1-11.
- b. Please confirm that the total Outside County volume, according to the FY2005 billing determinants in LR-L-77, is 8,307,329,578.
- c. Please confirm that the difference between total Outside County volume and the sum of volumes in your sampling strata is 151,750,158. Please confirm also that this is the total Outside County volume for “publications for which no issue frequency information was available and publications entering mail at facilities that are not on the PostalOne system.” If not confirmed, please explain fully.
- d. How does the Postal Service determine the volume for “publications for which no issue frequency information is available and publications entering mail at facilities that are not on the PostalOne system”?
- e. Is the volume of the publications referred to in parts c and d above known only in the aggregate, or can it be determined also for each of your 30 (36) strata? If the volume of such publications is known by stratum, please provide it.

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c. Not Confirmed. The FY 2005 billing determinant Outside County Periodicals volume of 8,307,329,578 is based on the revenue, pieces, and

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**RESPONSE TO TW/USPS-T28-12 (continued)**

weight estimation procedures described in witness Pafford's testimony (USPS-T-3). The PostalOne 3541 data that I use in the development of the stratification is only one input, although the major input, in witness Pafford's estimation procedure. It is true that the excluded PostalOne volume and the non-PostalOne volume are a major component of the difference, but other differences may arise in the Trial Balance revenue control process.

- d-e. The development of the Postal Services estimates of revenue, pieces, and weight are described in witness Pafford's testimony (USPS-T-3). It is my understanding that neither publication frequency nor volume of individual publications is required to develop national estimates of Periodicals Outside County revenue pieces and weight. To my knowledge, no publication specific information is available for publications entering mail at facilities that are not on the PostalOne system.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-13**

- a. Please confirm that Periodicals are required to provide "issue frequency information" by filing USPS form 3526 (Statement of Ownership, Management and Circulation) annually.
- b. If form 3526 information is not available, is it possible that the given Periodical no longer is being published?

**RESPONSE:**

- a. Confirmed.
- b. It is my understanding that there are a number of reasons that frequency information might be missing in the database of 3526 information provided to me by the Postal Service. It is possible that the publication was no longer in print and was deleted from the database, that a publication may have begun mailing at Periodicals rates in FY 05 and the 3526 information has not yet been entered into the database, or that the 3526 information for a publication is on file but has never been entered into the database or was entered incorrectly.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-14** In Docket No. C2004-1, witness Tang provided, in response to interrogatory TW et al./USPS-RT2-9 (Tr. 6/2194-98), the following statistics:

Total unique USPS publication numbers:	26,318
Publications with only In-County volume:	77
Publication No.s with missing 3526 information:	1,124

Please provide similar current statistics.

**RESPONSE:**

The publication statistics below refer only to the universe of publications entering mail at PostalOne equipped offices in FY05. To my knowledge the Postal Service does not maintain a database of publications entering mail at non-PostalOne equipped offices.

Total unique USPS publication numbers	25,903
Publication numbers with only In-County volume	217
Publication numbers with missing 3526 frequency information	363

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

Modified June 23, 2006

**TW/USPS-T28-15** Please refer to the spreadsheet you provided in response to  
TW/USPS-T28-1-11.

- a. Please confirm that according to Table 1 in that spreadsheet, the total number of letter shaped Outside County Periodicals in FY2005 was 98,218,775.
- b. Please confirm that according to Table 9 in that spreadsheet, the total number of flats shaped Outside County Periodicals in FY2005 was 8,207,322,096.
- c. Please confirm that subtracting the letter and flats shaped Outside County pieces from the total given indicated by the FY2005 billing determinants in LR-L-77 gives 1,788,707, and that this is the number of parcel shaped Periodicals pieces in FY2005. If not confirmed, what was the number of parcel shaped pieces?
- d. In your response to TW/USPS-T28-2c you indicate that parcels are 0.4% of the Outside County volume. But the parcel volume indicated above is only 0.0215% of the total. What is the correct percentage and why?

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. **The 0.4 percent estimate is the ODIS/RPW sample estimate of the proportion of Periodicals that are parcels (See PSA/USPS-T13-3). The letter and flat volumes that I refer to in my response to TW/USPS-T28-1-11 refer the PostalOne mailing statement based RPW by Shape volumes (USPS-LR-L- 87). The RPW by Shape estimates assign shape to pieces**

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

Modified June 23, 2006

Response to TW/USPS-T28-15 (continued)

based on the shape of the copy. It is my understanding the ODIS-RPW sample uses a similar procedure. Therefore, I cannot explain the discrepancy.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-16** Please refer to the spreadsheet you provided in response to TW/USPS-T28-1-11.

- a. Please confirm that according to Table 10, the total number of advertising pounds in all zones is 1,577,154,694.
- b. Please confirm that according to Table 11, the total number of editorial pounds in all zones is 2,139,144,828.
- c. Please confirm that, according to the FY2005 billing determinants in LR-L-77, the total number of Outside County advertising pounds is 1,605,188,997 and the total number of Outside County editorial pounds is 2,167,597,328.
- d. Are the numbers in Tables 10 and 11 smaller than the numbers indicated by the billing determinants because:
  - (1) they represent flats only;
  - (2) they are not fully aggregated to reflect the total Outside County volume: or
  - (3) for any other reason (please explain)?

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. The numbers in Tables 10 and 11 are smaller because they were constructed to be consistent with Tables 1 and 2 of USPS-LR-L-91. Tables 10 and 11 include advertising weight and distributed editorial weight of publications entering mail at PostalOne equipped facilities, and have issue frequency available.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**TW/USPS-T28-17** Please refer to your answers to TW/USPS-T28-1 regarding the similarities and differences between the study you presented in LR-K-91 in Docket No. R2005-1 and the corresponding study presented in LR-L-91 in the present docket. Please refer also to Tables 3 and 4 in LR-K-91 entitled respectively "FY 2004 Periodicals Outside County Distribution of Sacks by Presort Level and Number of Pieces" and "Periodicals Outside County Pieces in Under 24 Piece Sacks By Modeled Presort Rate."

- a. Please confirm that it is possible, based on the information you collected for the LR-L-91 study, to produce tables similar to Tables 3 and 4 in LR-K-91. If not confirmed, please explain.
- b. Please produce tables similar to Tables 3 and 4 in LR-K-91, in spreadsheet form, using the most current data.
- c. Please confirm that the type of information referred to in parts a and b above is needed to derive the conclusions you present in Table 5 of LR-L-91, regarding the number of Periodicals sacks (in FY2005) that had less than 24 pieces in them, and the average number of pieces in different types of sacks.
- d. Please explain how you did derive the estimates in Table 5 of LR-L-91 and provide any data necessary to replicate the derivation of those estimates that have not already been filed in your testimony or in response to other interrogatories.

**RESPONSE:**

- a. Confirmed. However it was not necessary to develop tables similar to Tables 3 and 4 of LR-K-91 in order to derive the estimates I present in Table 5 of LR-L-91. Please see my response to c-d below.
- b. Objection filed.
- c-d. Partial objection filed to d. Not confirmed. It is not necessary to develop the estimates presented in Tables 3 and 4 of LR-K-91 in order to develop

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**RESPONSE TO TW/USPS-T28 (continued)**

estimates of average container sizes of containers with different characteristics like those presented in LR-L-91. In the development of the Table 5 estimates presented in LR-L-91 a simpler approach was taken because the only sack estimates required were the average number of pieces in sacks with 24 or more pieces and the proportion of pieces in sacks with 24 or more pieces.

To develop the Table 5 estimates, the container type variable for sacks was changed to separately identify sacks with less than 24 pieces. The estimation procedure described in LR-L-91 was repeated with the addition of the new container type (i.e. sacks with less than 24 pieces). The exercise yielded estimates of average number of pieces in sacks with 24 or more pieces (45.11 pieces) and the percent of sacked pieces that were in sacks with 24 or more pieces (82.22 percent).

Because the volume estimates presented in Table 3 of LR-L-91 were developed under the assumption that Periodicals mail is either sacked or palletized (see my response to TW/USPS-T28-4b-c) it was necessary to develop container estimates consistent with this assumption. Total sack counts were derived by dividing the Periodicals sacked volume from Table 3 (1,937,591,710) by the estimated average pieces per sack of all sacks (28.76).

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF TIME WARNER, INC.

**RESPONSE TO TW/USPS-T28 (continued)**

$$1,937,591,710/26.76 = 67,371,061 \text{ sacks}$$

The count of 24 or more piece sacks was derived by multiplying Periodicals Outside County sacked volume by the proportion of sacked pieces in sacks with 24 or more pieces, then dividing by the estimated average number of pieces in sacks with 24 or more pieces.

$$(0.8222 \times 1,937,591,710) / 45.11 = 35,311,995 \text{ sacks}$$

The count of sacks with fewer than 24 pieces was derived by subtracting the 24 or more piece sacks from the total number of sacks.

$$67,371,061 - 35,311,995 = 32,059,066 \text{ sacks}$$

The estimate of average number of pieces in sacks with less than 24 pieces was calculated by dividing the pieces in sacks with less than 24 pieces by the number of sacks with less than 24 pieces.

$$((1-0.8222) \times 1,937,591,710) / 32,059,066 = 10.75 \text{ pcs/sack}$$

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.  
AND VALPAK DEALERS' ASSOCIATION, INC.

**VP/USPS-T28-1.** Are the data reported for Standard (both Regular and Nonprofit) and ECR Mail (both Regular and Nonprofit) in USPS-LR-L-87 identical to the data in the Billing Determinants, USPS-LR-L-77, in all respects? If not, please provide a crosswalk between the shape and weight data in USPS-LR-L-77 and the data contained in USPS-LR-L-87.

**Response:**

The Standard data in USPS-LR-L-87 and USPS-LR-L-77 are not identical in all respects. The data in LR-L-77 present estimated Standard revenue, pieces, and weight by RPW rate category and does not provide estimates by DMM 101 shape. The data in USPS-LR-L-87 are estimates of revenue, pieces and weight by RPW rate category and DMM 101 shape categories. LR-L-87 uses postage statement data to disaggregate mixed-shape rate categories, such as RPW category 3650 STD MAIL LTR/NONLTR ECR SAT POUND RATE, into DMM 101 shape categories. In the attached workbook I have provided a listing of the RPW rate categories used in LR-L-87 and those used in LR-L-77. The DMM 101 shape categories are listed in the column headings of workbook GFY2005V.xls of LR-L-87.

Response to VP/USPS-T28-1

VP/USPS-T28-1  
LR-L-77 and LR-L-87 Standard RPW Category Crosswalk

RPW Cat	RPW Description	LR-L-87 Labels	BD Presort Rate	LR-L-77 Labels	BD Entry
3398	STD MAIL LTR ADPC AUTO DBMC PIECE RATE	Commercial	AADC Automation Letters	BMC Destination Entry	BMC Destination Entry
3399	STD MAIL LTR ADPC AUTO DSCF PIECE RATE	Commercial	AADC Automation Letters	SCF Destination Entry	No Destination Entry
3397	STD MAIL LTR ADPC AUTO PIECE RATE	Commercial	AADC Automation Letters	SCF Destination Entry	No Destination Entry
3381	STD MAIL LTR 5-D AUTO DBMC PIECE RATE	Commercial	5-digit Automation Letters	BMC Destination Entry	BMC Destination Entry
3382	STD MAIL LTR 5-D AUTO DSCF PIECE RATE	Commercial	5-digit Automation Letters	SCF Destination Entry	No Destination Entry
3371	STD MAIL LTR 3-D AUTO DBMC PIECE RATE	Commercial	3-digit Automation Letters	BMC Destination Entry	BMC Destination Entry
3372	STD MAIL LTR 3-D AUTO DSCF PIECE RATE	Commercial	3-digit Automation Letters	SCF Destination Entry	No Destination Entry
3370	STD MAIL LTR 3-D AUTO PIECE RATE	Commercial	3-digit Automation Letters	SCF Destination Entry	No Destination Entry
3811	STD MAIL FLAT 3/5-D AUTO DBMC PIECE RATE	Commercial	3/5-digit Automation Nonletters (piece-rated)	BMC Destination Entry	BMC Destination Entry
3812	STD MAIL FLAT 3/5-D AUTO DSCF PIECE RATE	Commercial	3/5-digit Automation Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3281	STD MAIL LTR 3/5-D NONAUTO DBMC PIECE RATE	Commercial	3/5-digit Nonletters (piece-rated)	BMC Destination Entry	BMC Destination Entry
3282	STD MAIL LTR 3/5-D NONAUTO DSCF PIECE RATE	Commercial	3/5-digit Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3280	STD MAIL LTR 3/5-D NONAUTO PIECE RATE	Commercial	3/5-digit Letters - Non-Auto	SCF Destination Entry	No Destination Entry
3631	STD MAIL NONLTR 3/5-D NONAUTO DBMC PIECE RATE	Commercial	3/5-digit Nonletters (piece-rated)	BMC Destination Entry	BMC Destination Entry
3632	STD MAIL NONLTR 3/5-D NONAUTO DSCF PIECE RATE	Commercial	3/5-digit Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3630	STD MAIL NONLTR 3/5-D NONAUTO PIECE RATE	Commercial	3/5-digit Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3821	STD MAIL FLAT BASIC AUTO DBMC PIECE RATE	Commercial	Basic Automation Nonletters (piece-rated)	BMC Destination Entry	BMC Destination Entry
3822	STD MAIL FLAT BASIC AUTO DSCF PIECE RATE	Commercial	Basic Automation Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3820	STD MAIL FLAT BASIC AUTO PIECE RATE	Commercial	Basic Automation Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3231	STD MAIL LTR BASIC NONAUTO DBMC PIECE RATE	Commercial	Basic Letters - Non-Auto	BMC Destination Entry	BMC Destination Entry
3232	STD MAIL LTR BASIC NONAUTO DSCF PIECE RATE	Commercial	Basic Letters - Non-Auto	SCF Destination Entry	No Destination Entry
3230	STD MAIL LTR BASIC NONAUTO PIECE RATE	Commercial	Basic Letters - Non-Auto	SCF Destination Entry	No Destination Entry
3641	STD MAIL NONLTR BASIC NONAUTO DBMC PIECE RATE	Commercial	Basic Nonletters (piece-rated)	BMC Destination Entry	BMC Destination Entry
3642	STD MAIL NONLTR BASIC NONAUTO DSCF PIECE RATE	Commercial	Basic Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3640	STD MAIL NONLTR BASIC NONAUTO PIECE RATE	Commercial	Basic Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3395	STD MAIL LTR MIXED ADPC AUTO DBMC PIECE RATE	Commercial	Mixed ADPC Automation Letters	BMC Destination Entry	BMC Destination Entry
3394	STD MAIL LTR MIXED ADPC AUTO PIECE RATE	Commercial	Mixed ADPC Automation Letters	SCF Destination Entry	No Destination Entry
3351	STD MAIL LTR ECR SAT DBMC PIECE RATE	Commercial	Saturation Letters	BMC Destination Entry	BMC Destination Entry
3353	STD MAIL LTR ECR SAT DDU PIECE RATE	Commercial	Saturation Letters	DDU Destination Entry	DDU Destination Entry
3352	STD MAIL LTR ECR SAT DSCF PIECE RATE	Commercial	Saturation Letters	SCF Destination Entry	No Destination Entry
3350	STD MAIL LTR ECR SAT PIECE RATE	Commercial	Saturation Letters	SCF Destination Entry	No Destination Entry
3611	STD MAIL NONLTR ECR SAT DBMC PIECE RATE	Commercial	Saturation Nonletters (piece-rated)	BMC Destination Entry	BMC Destination Entry
3613	STD MAIL NONLTR ECR SAT DDU PIECE RATE	Commercial	Saturation Nonletters (piece-rated)	DDU Destination Entry	DDU Destination Entry
3612	STD MAIL NONLTR ECR SAT DSCF PIECE RATE	Commercial	Saturation Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3610	STD MAIL NONLTR ECR SAT PIECE RATE	Commercial	Saturation Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3266	STD MAIL LTR ECR HIGH DENSITY DBMC PIECE RATE	Commercial	High-Density Letters	BMC Destination Entry	BMC Destination Entry
3268	STD MAIL LTR ECR HIGH DENSITY DDU PIECE RATE	Commercial	High-Density Letters	DDU Destination Entry	DDU Destination Entry
3267	STD MAIL LTR ECR HIGH DENSITY DSCF PIECE RATE	Commercial	High-Density Letters	SCF Destination Entry	No Destination Entry
3265	STD MAIL LTR ECR HIGH DENSITY PIECE RATE	Commercial	High-Density Letters	SCF Destination Entry	No Destination Entry
3671	STD MAIL NONLTR ECR HIGH DENSITY DBMC PIECE RATE	Commercial	High-Density Nonletters (piece-rated)	BMC Destination Entry	BMC Destination Entry
3673	STD MAIL NONLTR ECR HIGH DENSITY DDU PIECE RATE	Commercial	High-Density Nonletters (piece-rated)	DDU Destination Entry	DDU Destination Entry
3672	STD MAIL NONLTR ECR HIGH DENSITY DSCF PIECE RATE	Commercial	High-Density Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3670	STD MAIL NONLTR ECR HIGH DENSITY PIECE RATE	Commercial	High-Density Nonletters (piece-rated)	SCF Destination Entry	No Destination Entry
3386	STD MAIL LTR ECR BASIC AUTO DBMC PIECE RATE	Commercial	ECR - Basic Auto Letters	BMC Destination Entry	BMC Destination Entry



Response to VP/USPS-T28-1

3934 STD MAIL NONPROFIT LTR 3/5-D AUTO DBMC POUND RATE	Nonprofit	3-digit Automation Letters	No Destination Entry
3943 STD MAIL NONPROFIT LTR BASIC AUTO POUND RATE	Nonprofit	3-digit Automation Nonletters (piece-rated)	BMC Destination Entry
3945 STD MAIL NONPROFIT LTR BASIC AUTO DSCF POUND RATE	Nonprofit	3-digit Letters - Non-Auto	SCF Destination Entry
3944 STD MAIL NONPROFIT LTR BASIC AUTO DBMC POUND RATE	Nonprofit	3/5-digit Letters - Non-Auto	BMC Destination Entry
3720 STD MAIL NONPROFIT NONLTR ECR BASIC PIECE RATE	Nonprofit	3/5-digit Nonletters (piece-rated)	No Destination Entry
3722 STD MAIL NONPROFIT NONLTR ECR BASIC DSCF PIECE RATE	Nonprofit	3/5-digit Letters (piece-rated)	SCF Destination Entry
3723 STD MAIL NONPROFIT NONLTR ECR BASIC DDU PIECE RATE	Nonprofit	3/5-digit Nonletters (piece-rated)	DDU Destination Entry
3721 STD MAIL NONPROFIT NONLTR ECR BASIC DBMC PIECE RATE	Nonprofit	3/5-digit Letters (piece-rated)	BMC Destination Entry
3320 STD MAIL NONPROFIT LTR ECR BASIC PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	No Destination Entry
3322 STD MAIL NONPROFIT LTR ECR BASIC DSCF PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	SCF Destination Entry
3323 STD MAIL NONPROFIT LTR ECR BASIC DDU PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	DDU Destination Entry
3321 STD MAIL NONPROFIT LTR ECR BASIC DBMC PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	BMC Destination Entry
3340 STD MAIL NONPROFIT LTR ECR BASIC AUTO PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	No Destination Entry
3342 STD MAIL NONPROFIT LTR ECR BASIC AUTO DSCF PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	SCF Destination Entry
3343 STD MAIL NONPROFIT LTR ECR BASIC AUTO DDU PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	DDU Destination Entry
3341 STD MAIL NONPROFIT LTR ECR BASIC AUTO DBMC PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	BMC Destination Entry
3770 STD MAIL NONPROFIT NONLTR ECR HIGH DENSITY PIECE RATE	Nonprofit	High-Density Nonletters (piece-rated)	No Destination Entry
3772 STD MAIL NONPROFIT NONLTR ECR HIGH DENSITY DSCF PIECE RATE	Nonprofit	High-Density Letters (piece-rated)	SCF Destination Entry
3773 STD MAIL NONPROFIT NONLTR ECR HIGH DENSITY DDU PIECE RATE	Nonprofit	High-Density Nonletters (piece-rated)	DDU Destination Entry
3771 STD MAIL NONPROFIT NONLTR ECR HIGH DENSITY DBMC PIECE RATE	Nonprofit	High-Density Letters (piece-rated)	BMC Destination Entry
3335 STD MAIL NONPROFIT LTR ECR HIGH DENSITY PIECE RATE	Nonprofit	High-Density Letters	No Destination Entry
3337 STD MAIL NONPROFIT LTR ECR HIGH DENSITY DSCF PIECE RATE	Nonprofit	High-Density Letters	SCF Destination Entry
3338 STD MAIL NONPROFIT LTR ECR HIGH DENSITY DDU PIECE RATE	Nonprofit	High-Density Letters	DDU Destination Entry
3336 STD MAIL NONPROFIT LTR ECR HIGH DENSITY DBMC PIECE RATE	Nonprofit	High-Density Letters	BMC Destination Entry
3710 STD MAIL NONPROFIT NONLTR ECR SAT PIECE RATE	Nonprofit	Saturation Nonletters (piece-rated)	No Destination Entry
3712 STD MAIL NONPROFIT NONLTR ECR SAT DSCF PIECE RATE	Nonprofit	Saturation Nonletters (piece-rated)	SCF Destination Entry
3713 STD MAIL NONPROFIT NONLTR ECR SAT DDU PIECE RATE	Nonprofit	Saturation Nonletters (piece-rated)	DDU Destination Entry
3711 STD MAIL NONPROFIT NONLTR ECR SAT DBMC PIECE RATE	Nonprofit	Saturation Nonletters (piece-rated)	BMC Destination Entry
3410 STD MAIL NONPROFIT LTR ECR SAT PIECE RATE	Nonprofit	Saturation Letters	No Destination Entry
3412 STD MAIL NONPROFIT LTR ECR SAT DSCF PIECE RATE	Nonprofit	Saturation Letters	SCF Destination Entry
3413 STD MAIL NONPROFIT LTR ECR SAT DDU PIECE RATE	Nonprofit	Saturation Letters	DDU Destination Entry
3411 STD MAIL NONPROFIT LTR ECR SAT DBMC PIECE RATE	Nonprofit	Saturation Letters	BMC Destination Entry
3454 STD MAIL NONPROFIT LTR MIXED AADC AUTO PIECE RATE	Nonprofit	Mixed AADC Automation Letters	No Destination Entry
3455 STD MAIL NONPROFIT LTR MIXED AADC AUTO DBMC PIECE RATE	Nonprofit	Mixed AADC Automation Letters	BMC Destination Entry
3740 STD MAIL NONPROFIT NONLTR BASIC NONAUTO PIECE RATE	Nonprofit	Basic Nonletters (piece-rated)	No Destination Entry
3742 STD MAIL NONPROFIT NONLTR BASIC NONAUTO DSCF PIECE RATE	Nonprofit	Basic Nonletters (piece-rated)	SCF Destination Entry
3741 STD MAIL NONPROFIT NONLTR BASIC NONAUTO DBMC PIECE RATE	Nonprofit	Basic Nonletters (piece-rated)	BMC Destination Entry
3210 STD MAIL NONPROFIT LTR BASIC NONAUTO PIECE RATE	Nonprofit	Basic Letters - Non-Auto	No Destination Entry
3212 STD MAIL NONPROFIT LTR BASIC NONAUTO DSCF PIECE RATE	Nonprofit	Basic Letters - Non-Auto	SCF Destination Entry
3211 STD MAIL NONPROFIT LTR BASIC NONAUTO DBMC PIECE RATE	Nonprofit	Basic Letters - Non-Auto	BMC Destination Entry
3920 STD MAIL NONPROFIT FLAT BASIC AUTO PIECE RATE	Nonprofit	Basic Automation Nonletters (piece-rated)	No Destination Entry
3922 STD MAIL NONPROFIT FLAT BASIC AUTO DSCF PIECE RATE	Nonprofit	Basic Automation Nonletters (piece-rated)	SCF Destination Entry
3921 STD MAIL NONPROFIT FLAT BASIC AUTO DBMC PIECE RATE	Nonprofit	Basic Automation Nonletters (piece-rated)	BMC Destination Entry
3730 STD MAIL NONPROFIT NONLTR 3/5-D NONAUTO PIECE RATE	Nonprofit	3/5-digit Nonletters (piece-rated)	No Destination Entry
3732 STD MAIL NONPROFIT NONLTR 3/5-D NONAUTO DSCF PIECE RATE	Nonprofit	3/5-digit Letters (piece-rated)	SCF Destination Entry
3731 STD MAIL NONPROFIT NONLTR 3/5-D NONAUTO DBMC PIECE RATE	Nonprofit	3/5-digit Nonletters (piece-rated)	BMC Destination Entry
3300 STD MAIL NONPROFIT LTR 3/5-D NONAUTO PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	No Destination Entry
3302 STD MAIL NONPROFIT LTR 3/5-D NONAUTO DSCF PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	SCF Destination Entry
3301 STD MAIL NONPROFIT LTR 3/5-D NONAUTO DBMC PIECE RATE	Nonprofit	3/5-digit Letters - Non-Auto	BMC Destination Entry
3910 STD MAIL NONPROFIT FLAT 3/5-D AUTO PIECE RATE	Nonprofit	3/5-digit Automation Nonletters (piece-rated)	No Destination Entry
3912 STD MAIL NONPROFIT FLAT 3/5-D AUTO DSCF PIECE RATE	Nonprofit	3/5-digit Automation Nonletters (piece-rated)	SCF Destination Entry
3911 STD MAIL NONPROFIT FLAT 3/5-D AUTO DBMC PIECE RATE	Nonprofit	3/5-digit Automation Nonletters (piece-rated)	BMC Destination Entry
3430 STD MAIL NONPROFIT LTR 3-D AUTO PIECE RATE	Nonprofit	3-digit Automation Letters	No Destination Entry

3935 STD MAIL NONPROFIT LTR 3/5-D AUTO DSCF POUND RATE	Nonprofit	3/5-digit Auto Letters (pound-rated)	SCF Destination Entry
3933 STD MAIL NONPROFIT LTR 3/5-D AUTO POUND RATE	Nonprofit	3/5-digit Auto Letters (pound-rated)	No Destination Entry
3931 STD MAIL NONPROFIT FLAT 3/5-D AUTO DBMC POUND RATE	Nonprofit	3/5-digit Automation Nonletters (pound-rated)	BMC Destination Entry
3932 STD MAIL NONPROFIT FLAT 3/5-D AUTO DSCF POUND RATE	Nonprofit	3/5-digit Automation Nonletters (pound-rated)	SCF Destination Entry
3930 STD MAIL NONPROFIT FLAT 3/5-D AUTO POUND RATE	Nonprofit	3/5-digit Automation Nonletters (pound-rated)	No Destination Entry
3311 STD MAIL NONPROFIT LTR/NONLTR 3/5-D NONAUTO DBMC POUND	Nonprofit	3/5-digit Nonletters (pound-rated)	BMC Destination Entry
3312 STD MAIL NONPROFIT LTR/NONLTR 3/5-D NONAUTO DSCF POUND	Nonprofit	3/5-digit Nonletters (pound-rated)	SCF Destination Entry
3310 STD MAIL NONPROFIT LTR/NONLTR 3/5-D NONAUTO POUND RATE	Nonprofit	3/5-digit Nonletters (pound-rated)	No Destination Entry
3941 STD MAIL NONPROFIT FLAT BASIC AUTO DBMC POUND RATE	Nonprofit	Basic Automation Nonletters (pound-rated)	BMC Destination Entry
3942 STD MAIL NONPROFIT FLAT BASIC AUTO DSCF POUND RATE	Nonprofit	Basic Automation Nonletters (pound-rated)	SCF Destination Entry
3940 STD MAIL NONPROFIT FLAT BASIC AUTO POUND RATE	Nonprofit	Basic Automation Nonletters (pound-rated)	No Destination Entry
3221 STD MAIL NONPROFIT LTR/NONLTR BASIC NONAUTO DBMC POUND	Nonprofit	Basic Nonletters (pound-rated)	BMC Destination Entry
3222 STD MAIL NONPROFIT LTR/NONLTR BASIC NONAUTO DSCF POUND	Nonprofit	Basic Nonletters (pound-rated)	SCF Destination Entry
3220 STD MAIL NONPROFIT LTR/NONLTR BASIC NONAUTO POUND RATE	Nonprofit	Basic Nonletters (pound-rated)	No Destination Entry
3751 STD MAIL NONPROFIT LTR/NONLTR ECR SAT DBMC POUND RATE	Nonprofit	Saturation Nonletters (pound-rated)	BMC Destination Entry
3753 STD MAIL NONPROFIT LTR/NONLTR ECR SAT DDU POUND RATE	Nonprofit	Saturation Nonletters (pound-rated)	DDU Destination Entry
3752 STD MAIL NONPROFIT LTR/NONLTR ECR SAT DSCF POUND RATE	Nonprofit	Saturation Nonletters (pound-rated)	SCF Destination Entry
3750 STD MAIL NONPROFIT LTR/NONLTR ECR SAT POUND RATE	Nonprofit	Saturation Nonletters (pound-rated)	No Destination Entry
3781 STD MAIL NONPROFIT LTR/NONLTR ECR HIGH DENSITY DBMC POU	Nonprofit	High-Density Nonletters (pound-rated)	BMC Destination Entry
3783 STD MAIL NONPROFIT LTR/NONLTR ECR HIGH DENSITY DDU POUN	Nonprofit	High-Density Nonletters (pound-rated)	DDU Destination Entry
3782 STD MAIL NONPROFIT LTR/NONLTR ECR HIGH DENSITY DSCF POU	Nonprofit	High-Density Nonletters (pound-rated)	SCF Destination Entry
3780 STD MAIL NONPROFIT LTR/NONLTR ECR HIGH DENSITY POUND RA	Nonprofit	High-Density Nonletters (pound-rated)	No Destination Entry
3331 STD MAIL NONPROFIT LTR/NONLTR ECR BASIC DBMC POUND RAT	Nonprofit	ECR - Basic Nonletters (pound-rated)	BMC Destination Entry
3333 STD MAIL NONPROFIT LTR/NONLTR ECR BASIC DDU POUND RATE	Nonprofit	ECR - Basic Nonletters (pound-rated)	DDU Destination Entry
3332 STD MAIL NONPROFIT LTR/NONLTR ECR BASIC DSCF POUND RATE	Nonprofit	ECR - Basic Nonletters (pound-rated)	SCF Destination Entry
3330 STD MAIL NONPROFIT LTR/NONLTR ECR BASIC POUND RATE	Nonprofit	ECR - Basic Nonletters (pound-rated)	No Destination Entry
3315 STD MAIL NONPROFIT BCODE DISCOUNT RESIDUAL SHAPE NONA	Nonprofit	Barcode Adjustment	Barcode Adjustment
3181 STD MAIL NONPROFIT REPOSITIONABLE NOTE EXPERIMENT	Nonprofit	Experimental Repositionable Notes	Experimental Repositionable Notes

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK  
DEALERS' ASSOCIATION, INC.,  
REDIRECTED FROM WITNESS KELLEY (USPS-T-30)

**VP/USPS-T30-20.** Please refer to USPS-LR-L-67, workbook VolAdj.USPS.xls (hereinafter "workbook- 1"), and to USPS-LR-L-36, workbook WP-STDECR.xls (hereinafter "workbook-2"), the latter library reference containing the rate design workpapers of Postal Service witness Kiefer (USPS-T-36).

a. In workbook-1, tab 'RPW,' the volume in cell F14 (i.e., 35,023,418 [000 omitted]) is equal to the sum in workbook-2 of (i) cell H35 under tab 'ECR Commercial BDs,' and (ii) cell H37 under tab 'ECR Nonprofit BDs.' However, the two cells included in this sum do not include the heavy letters shown in cells H135, H140 and H145 of tab 'ECR Commercial BDs,' and cells H138, H143 and H148 of tab 'ECR Nonprofit BDs.' Please explain whether the volume in cell F14 includes the volume of heavy letters.

b. In workbook-1, tab 'RPW,' the letter volume in cell C14 (i.e., 9,040,800 [000 omitted]) does not equal the workbook-2 sum of the letter volume on tab 'ECR Commercial BDs' (cells H11 + H46 + H66) plus the letter volume on tab 'ECR Nonprofit BDs' (cells H13 + H47 + H67), regardless of whether the heavy letters referenced in part a of this question are included. Please explain this apparent misalignment.

**RESPONSE:**

a. The value in cell F14 of the tab 'RPW' of USPS-LR-L-67 workbook VolAdj.USPS.xls represents the estimated volume of Standard ECR in FY05 and includes 'heavy letters' and RSS pieces. The values in cell H35 of tab 'ECR Commercial BDs' and cell H37 of tab 'ECR Nonprofit BDs' in USPS-LR-L-36 workbook WP-STDECR.xls also include 'heavy letters' and RSS pieces.

RESPONSE OF USPS WITNESS LOETSCHER (USPS-T-28) TO  
INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK  
DEALERS' ASSOCIATION, INC.,  
REDIRECTED FROM WITNESS KELLEY (USPS-T-30)

**RESPONSE TO VP/USPS-T30-20 (continued)**

b. The letter volume in cell C14 of the 'RPW' tab in workbook VolAdj.USPS.xls of USPS-LR-L-67 comes from the RPW by shape estimates described in USPS-LR-L-87. The RPW by shape estimates are developed to produce shape estimates that are as consistent as possible with the DMM 101 shape definitions. The Billing Determinant data refers to letter rate categories and will exclude DMM 101 letters that exceed 3.5 ounces, (3.3 ounces in the case of nonautomation pieces) and nonautomation ECR DMM 101 letters mailed at nonletter ECR rates

1 CHAIRMAN OMAS: Mr. Loetscher, if you were  
2 asked to respond orally to these questions here today,  
3 would your answers be the same as those you previously  
4 provided?

5 THE WITNESS: Yes, they would.

6 CHAIRMAN OMAS: Excuse me.

7 (Pause.)

8 CHAIRMAN OMAS: There was a little  
9 misunderstanding in my script.

10 Is there any additional written cross-  
11 examination for Witness Loetscher?

12 (No response.)

13 CHAIRMAN OMAS: There being none, this  
14 brings us to oral cross-examination.

15 Three participants have requested oral  
16 cross-examination: The Association for Postal  
17 Commerce and the Mailing Fulfillment Services  
18 Association; Major Mailers Association; and the Parcel  
19 Shippers Association.

20 Mr. Volner, you may begin.

21 MR. VOLNER: Thank you, Mr. Chairman.

22 CROSS-EXAMINATION

23 BY MR. VOLNER:

24 Q Good morning, Mr. Witness. My name is Ian  
25 Volner, and I will be examining you or discussing with

Heritage Reporting Corporation  
(202) 628-4888

1 you your testimony only fortunately as to two of the  
2 library references.

3 I want to focus particularly on 33 and to  
4 some extent on 92, which relate to the studies that  
5 you did to recategorize certain types of standard  
6 mail.

7 If you could, let's start with page 4 of  
8 Library Reference 33. Do you have that?

9 A Yes, I do.

10 Q All right. Now, you set forth on this page  
11 and the page that follows it what you call categories  
12 of non-letter volume. Did you define the categories  
13 yourself?

14 A No, I did not.

15 Q So you got them from somebody in the Postal  
16 Service? Is that correct?

17 A Yes, we did.

18 Q Well, you don't say in your testimony or in  
19 the library reference from whom they were gotten.  
20 Could you tell us that?

21 A They were I believe provided to us by Mark  
22 McCrery.

23 Q Okay. That helps considerably. Did he give  
24 them to you in writing, or did you meet with him and  
25 were they described to you?

1           A     If my recollection is correct, I believe  
2     that they were sent to us via email.

3           Q     Okay. Let me ask a few questions about the  
4     categories. Basically though the purpose of your  
5     study was to take these categories that have been  
6     given to you -- the pots, if you will -- and to figure  
7     out what mail fit into those pots? Is that the  
8     purpose of your Library Reference 33 study?

9           A     Yes.

10          Q     Now, in the definition of automation flats  
11     it basically says that the piece must be AFSM 100  
12     compatible, but it goes on to say, "The maximum  
13     rigidity requirement will replace the current  
14     deflection test," and then you've got a footnote which  
15     defines the maximum rigidity requirement.

16                   Did Mr. McCrery also give you the rigidity  
17     test that you have embodied in Footnote 1?

18          A     Yes.

19          Q     Did you explore at all the difference  
20     between the deflection test which exists in the DMM  
21     now and the rigidity test?

22          A     What do you mean by explore?

23          Q     Well, let me see if I can sort this out a  
24     little bit.

25                   Your rigidity test shows that it is too

1 rigid within certain dimensions when manual force is  
2 applied without damage to the mail piece.

3 When I look at the current deflection tests,  
4 will you accept subject to check that the dimensional  
5 characteristics are virtually identical, but there's  
6 no discussion of manual force? The purpose was to  
7 determine whether the piece drooped too much.

8 A That is correct.

9 Q So the difference between the rigidity test  
10 and the droop or the deflection test is simply pieces  
11 that are too floppy no longer trouble us; pieces that  
12 are too rigid now do?

13 A Yes. One is a measure of the maximum  
14 rigidity requirements, and one of them is a measure of  
15 the minimum rigidity requirements.

16 Q But in order for your tally takers to apply  
17 the test, they had to understand what manual force is.  
18 I mean, did you train them on how to apply this test?

19 A Yes. We were trained by the Postal Service.

20 Q You were trained by the Postal Service?  
21 When you say we, the people who actually went into the  
22 destination delivery units?

23 A Yes. All the data collectors.

24 Q And that training was conducted by Mr.  
25 McCrery?

1           A     I don't recall if Mr. McCrery conducted the  
2 training for everyone, but I certainly know that he  
3 was involved in the training.

4           Q     Okay. And the training took place shortly  
5 before the field study was done?

6           A     Yes, it was.

7           Q     All right. Let's take a look for a moment  
8 at the definition of hybrid flats. You say that  
9 pieces that can be cased but are not AFSM 100  
10 compatible is the definition of a hybrid flat. Then  
11 it goes on to define what you mean by case.

12                     Now, when we're talking about casing what  
13 we're talking about is the sortation by the carrier  
14 into the case so that he can prepare to take it on the  
15 street. Is that correct?

16           A     That is my understanding of it.

17           Q     Now let's take a look at the definition of  
18 what it means to be caseable I guess. I don't know  
19 whether that's a word. It's not a word that you use.

20                     It says the piece must either have one  
21 dimension, length or height, that is equal to or less  
22 than six inches, but then it goes on to say "or the  
23 piece must meet both the maximum rigidity requirement  
24 and the turning ability requirement."

25                     Now, I assume the maximum rigidity

1 requirement is that rigidity requirement that we were  
2 just talking about? It's not a different one, is it?

3 A Right. Right.

4 Q That rigidity requirement is described as  
5 being related to whether a piece is automation  
6 compatible. How does rigidity have to do with whether  
7 it will fit in a case?

8 A I'm not an expert in carrier casing. We  
9 were given these as the definition of what was  
10 caseable, and that's how we implemented it.

11 Q I see. Well, then that's going to  
12 considerably shorten some of this discussion.

13 The other part of that casing test, as I  
14 read it here, is that it must also meet the turning  
15 ability requirement. Now, will you accept subject to  
16 check that the turning ability requirement as you have  
17 defined it in your field study is absolutely identical  
18 to the turning ability requirement that appears in the  
19 DMM as it relates to AFSM 100 pieces?

20 A I believe that's true.

21 Q Okay. That makes things a lot easier.  
22 Let's turn very briefly then to there's one other  
23 piece of the hybrid flat definition that I want to  
24 make sure I understand.

25 "Hybrid flats have dimensions," and I'm

1 reading now from page 5 of your library reference,  
2 "compatible with the UFSM 1000 machines," and you  
3 provide a DMM citation, "but are less than or equal to  
4 .75 inches thick."

5 Do you know what the maximum thickness  
6 dimension of the AFSM 100 machine is?

7 A I don't have the DMM in front of me, and I  
8 haven't committed that to memory, but I believe that  
9 it is for the AFSM 100 less than .75 inches.

10 Q Thank you. I can take the rest of this up  
11 with Mr. McCrery, who comes up in a couple weeks.

12 Now let's turn to hybrid parcels for a  
13 moment. The definition says that it cannot be cased,  
14 and I assume, or am I correct in assuming, that cased  
15 in this sense is used exactly by the same test that we  
16 discussed when we were talking about hybrid flats?

17 A Yes.

18 Q The definition goes on to say that pieces  
19 that are UFSM 1000 compatible but cannot be cased and  
20 are not AFSM 100 compatible are hybrid parcels in the  
21 way you've conducted your survey. Is that correct?

22 A Yes, that was the intent.

23 Q All right. Let me ask. It's the same test  
24 basically? The casing is the same test, and the  
25 dimensions are the same. There's no change here in

1 what it means with the words UFSM 1000 compatible or  
2 AFSM 100 compatible?

3 It's the same test that you use in the  
4 development of the definition or that you applied in  
5 Mr. McCrery's development of the definition of a  
6 hybrid flat?

7 A Could you please repeat the question?

8 Q Yes. It's a little confusing. Let's go  
9 back to the language used.

10 Hybrid parcels, pieces that are UFSM 1000  
11 compatible, and you cite to 1.3.4 of the DMM. Is that  
12 term, UFSM compatible, the same as the hybrid flats  
13 definition that you use in the immediately preceding  
14 discussion?

15 A Well, when I say UFSM 1000 compatible it's  
16 consistent throughout the library reference.

17 Q Okay. That solves my problem. And the word  
18 cased is consistent throughout? Where it says can be  
19 cased/cannot be cased, the test is the same?

20 A Yes, I believe so.

21 Q Okay. Good. So what we have, to sort of  
22 sum up a hybrid parcel, is that it cannot be cased,  
23 but it is otherwise UFSM 1000 compatible. Is that a  
24 fair characterization of the definition that you used  
25 in your survey?

1           A     Right.  If you would like to see how those  
2 definitions were operational, I believe -- let me  
3 check in here.  In Appendix D --

4           Q     Yes.

5           A     -- there's a listing of how --

6           Q     How the screens were developed?

7           A     Yes.

8           Q     I'm not concerned about the screens.  I'm  
9 concerned about the definitions themselves.

10          A     Not the screens.  These are how we --

11          Q     How you applied them?

12          A     Yes.

13          Q     It comes from the same place.  First you  
14 apply them.  Then you enter them into the screen.

15          A     Well, these are the criteria used in all HPs  
16 after they were measured.

17          Q     Did Mr. McCrery tell you that there is  
18 another category of pieces that are not covered either  
19 by hybrid parcels or hybrid flats?

20          A     Not that I'm aware of.

21          Q     Okay.

22          A     Do you mean other than the auto flats and  
23 non-auto flats and parcels?

24          Q     Yes.  What about a piece that can be cased  
25 because it meets the rigidity or because it has the

1 requisite size of less than six inches, but is greater  
2 than three-quarters of an inch thick?

3 A I can't speak to whether those pieces are  
4 caseable or what category Operations would like those  
5 identified into.

6 Q How did you treat such a piece in conducting  
7 your survey, or didn't you find any?

8 A What were the dimensions?

9 Q It is caseable by the definition set forth  
10 in this library reference. That is to say either one  
11 side is equal to or less than six inches or it meets  
12 -- I mean, the "or" is clearly an alternative, isn't  
13 it? You put it in bold. Or it meets both the  
14 rigidity and turning ability. That's the first test.  
15 It is caseable.

16 A So it has one side less than six inches?

17 Q Yes. Let's take an example. It has one  
18 side less than six inches, but it is less than three-  
19 quarters of an inch thick. I mean but it's greater  
20 than three-quarters of an inch thick.

21 Obviously I can take this up with Witness  
22 McCreery.

23 A Yes. I would have to do a more thorough  
24 check on those before I could --

25 MR. VOLNER: I would like to ask, Mr.

1 Chairman, that at this point -- I had hoped to avoid  
2 it.

3 Perhaps the easiest way for us to do this is  
4 to do a follow-up written interrogatory to the witness  
5 defining the piece that we're looking for and simply  
6 asking him how they were treated in the survey, if  
7 counsel doesn't have an objection to that.

8 MR. REIMER: No objection.

9 MR. VOLNER: That I think will solve this.

10 CHAIRMAN OMAS: So ordered.

11 MR. VOLNER: Thank you.

12 BY MR. VOLNER:

13 Q Okay. Let's go to another topic and get out  
14 of the mud of what a piece is and what a hybrid is and  
15 what a hybrid isn't. Not much more exciting though on  
16 this end.

17 Could you please turn to Library Reference  
18 33, page 6? Down at the bottom you describe the  
19 methodology, and you say that the survey was conducted  
20 on a universe of mail volume which is all non-ECR  
21 standard non-letter mail processed by the Postal  
22 Service, but it was conducted at the carrier route  
23 level.

24 I believe in your instructions to the survey  
25 takers you said I don't want you interfering with the

1 carrier's casing of it so that the survey was actually  
2 conducted in the destination delivery unit before  
3 these materials got to the case. Is that correct?

4 A Not entirely. Some of it included both the  
5 carrier route and the box, P.O. box section.

6 Q Yes. I'm sorry. The P.O. box, of course.

7 A The instructions were to try not to  
8 interfere, i.e., delay the carrier, but whenever we  
9 went out we went to the carrier that was selected, we  
10 explained what we were doing, and most of the times he  
11 assisted us by holding out sample pieces or when  
12 flats, non-letters, were delivered to his case that we  
13 had a sample.

14 He was kind enough to hold those out for us  
15 to sample, so it wasn't like we completely avoided the  
16 carrier.

17 Q But the one thing that you could not  
18 determine from the site at which you took the surveys  
19 is whether the pieces that either he pointed to or  
20 your tally takers identified had actually been run on  
21 a flat sorting machine or not. Is that correct?

22 You're with the carrier. By this point  
23 we're at the destination delivery unit, aren't we?

24 A Yes, you are.

25 Q Okay.

1           A     You can't tell perfectly, but if the piece  
2     was run on a machine in the incoming secondary it will  
3     have a tag, a label on it that indicates what type of  
4     machine it was run on.

5           Q     Did you tally those tags or labels?

6           A     We tried to the best of our ability to  
7     identify the stream that the mail came from, yes.

8           Q     Well, we'll get to that in a few moments.  
9     In some cases, of course, you couldn't tell. I mean,  
10    did the absence of the tag mean that it was manually  
11    processed?

12          A     Not necessarily.

13          Q     Okay. Did the tally takers actually watch  
14    the carrier once the pieces were selected for sampling  
15    put them in the case or not, all puns intended, as the  
16    case may be?

17          A     They may have watched, but they didn't  
18    record any information about that.

19          Q     Okay. So that they simply applied the test,  
20    and I gather you gave them in addition to obviously a  
21    ruler of some sort, you gave them a device which  
22    enabled them to apply the turning ability test?

23          A     Yes, we did.

24          Q     And on the maximum rigidity test, that had  
25    to be done manually?

1           A     Well, the Postal Service has developed this  
2 nifty little measuring device that allows you to do  
3 the turnability, the deflection test and the maximum  
4 rigidity test.

5           Q     So that it does all three?

6           A     Yes.

7           Q     It does deflection, as well as maximum  
8 rigidity?

9           A     I believe that it does.

10          Q     I'll take that up with Mr. McCrery as well.

11                    At page 11 of the library reference you talk  
12 about for any observation where one or more anomalies  
13 are found the original data collector, or what I call  
14 tally taker, of the observation was consulted in an  
15 attempt to reconcile the anomalies.

16                    Now, I am not worried about statistical  
17 rigor here, but I am more than casually curious to  
18 know what sort of anomalies are we talking about? Can  
19 you give me some examples of what were typical  
20 anomalies?

21          A     Typical anomalies were I think like putting  
22 the decimal point in the wrong place, measuring and  
23 someone deciding that piece they took both length,  
24 width and thickness measurements and the girth  
25 measurement, things like that. I can't remember all

1 of them.

2 Q You say that your primary method of  
3 resolving them was to go back to the data set taker,  
4 the data collector. You asked him what he did with  
5 respect to a particular piece?

6 A Yes, we would.

7 Q And he was expected to remember? That's the  
8 piece where I put the decimal in the wrong place. I  
9 mean, there are some obvious decimal errors. If it  
10 was .125 it seems improbable, 1.25 probably being a  
11 more rational result, but 12.5 might not be so  
12 irrational.

13 Was he expected to remember the particular  
14 piece where the anomaly occurred?

15 A Well, if we couldn't reconcile those  
16 anomalies those were removed from the sample.

17 Q I understand that, but what I'm asking is  
18 was there a screening process by which you said well,  
19 that explains it, but we don't find that explanation  
20 satisfactory so you took the piece out?

21 A No. I think -- well, could you repeat that  
22 question? I'm not really sure.

23 Q The fact is you usually would reconcile.

24 A Uh-huh.

25 Q And you said that the primary method of

1 reconciliation was to talk to the data collector.

2 A Uh-huh.

3 Q What I'm asking is whether there was any  
4 standard applied in deciding whether the explanation  
5 provided appropriately reconciled?

6 A One, I think there were very few pieces  
7 where these screens failed. I would say that the  
8 standard was basically if the data collector said yes,  
9 I was using fractions at that time or I was using a  
10 scale that didn't have the decimal point here or for  
11 whatever reason, if they obviously knew the answer  
12 then the observation was corrected. If they were  
13 saying I'm not sure, I believe that those observations  
14 were excluded.

15 I don't know the exact number of pieces that  
16 we had to consult with the data collector, but I think  
17 that it was generally a small number of pieces?

18 Q The survey was not a very large survey to  
19 begin with?

20 A No. Right.

21 Q Okay.

22 A We did collect data on 1,700 standard mail  
23 pieces and 5,000, but it was not the size of the Otis  
24 RPW test if that's what you're asking.

25 Q Okay. As I said, I'm not worried about

1 statistics. I'm not worried about statistical bias  
2 here for reasons that we'll get to in a moment. I  
3 just want to understand what happened in this  
4 reconciliation process, and I think you have provided  
5 it.

6           Could you turn to page 38 of Library  
7 Reference 33? There are a couple pieces here that  
8 have me puzzled, to say the least.

9           There's a note at the bottom of 5 where it  
10 says Measurements, and it starts by saying, "If the  
11 girth was measured..." Does that mean that girth was  
12 not measured on all the cases?

13           A     No. If the piece was square, box-shaped,  
14 there was no need to measure the girth. Girth was  
15 measured when you had an irregular piece, a tube, a  
16 Tyvek envelope, something that was not --

17           Q     And the instructions to the tally takers  
18 made that clear?

19           A     Let me check the instructions, and I believe  
20 I can tell you where it described when to measure  
21 girth.

22                     (Pause.)

23           A     On page 27 of the library reference at the  
24 bottom. Would you like me to read that?

25           Q     Yes, because I have some questions about it.

1           A     "Girth. This measurement needs only to be  
2 taken if the piece is not rectangular. Girth should  
3 be measured perpendicular to the length of the piece.  
4 A soft measure tape is required."

5           Q     Perfect. Now let me give you a  
6 hypothetical.

7                     First of all, let me ask you a question. If  
8 the piece is not rectangular, by definition it is not  
9 AFSM 100 or 1000 compatible, is it?

10          A     I believe that's correct subject to check.

11          Q     Okay. Let me give you a not-so-hypothetical  
12 hypothetical. A family member of mine receives her  
13 medications through the mail, and the medicine is  
14 actually boxed. There's a box, but they don't mail  
15 the box. They put the box in one of those padded  
16 envelopes. Is that non-rectangular?

17          A     That depends on how thick the bulk within  
18 the envelope was.

19          Q     Was that for purposes of your instruction  
20 treated as non-uniform?

21          A     That was left to the discretion of the data  
22 collector.

23          Q     Was there a definition of non-uniform then  
24 other than it be rectangular?

25          A     I can't recall whether there was or not.

1           Q     Okay.  Let's go back to page 38 for a moment  
2 because there's one other line that has me more than a  
3 little confused.

4                     Item 6 on page 38 says that weight is less  
5 than 16 ounces, and you identify the survey run.  Then  
6 there's a note.  The note says, "The proposed  
7 definition of standard mail flats" -- standard mail  
8 flats -- "includes a maximum weight of 20 ounces."

9                     May I assume that that came to you from Mr.  
10 McCrery and that you didn't propose that definition?

11           A     That would be correct.

12           Q     Okay.  You say that the pieces that fell  
13 into this weight range were not included in the table,  
14 but there's a little complication there and that is  
15 this.  If it weighs more than 16 ounces it would not  
16 -- or it should not, assuming my mailers are being  
17 reasonably honest.  It would not be identifiable under  
18 current rules as a standard mail piece.

19                     When your data collectors were at the case  
20 did they also look at bound printed matter pieces?

21           A     Yes, they did.  We tried to sample all non-  
22 letters unless the piece obviously exceeded three  
23 inches in thickness.

24           Q     All non-letters?

25           A     All non-letters, including periodicals,

1 bound printed matter, any non-letter that was in the  
2 non-letter category.

3 Q Including periodicals?

4 A Right.

5 Q Did you separate the bound printed matter  
6 pieces from this survey?

7 A We separated them based on the markings on  
8 the piece.

9 Q Based on the indicia?

10 A And the other markings on the piece, yes.

11 Q Okay. And the same thing would be true with  
12 periodicals?

13 A The same thing would be true with  
14 periodicals.

15 Q Then why do we have six pieces? Were those  
16 six bound printed matter or something else pieces?

17 A As it says on page 38, those six pieces fell  
18 into that weight range. We measured six non-letter  
19 pieces that were --

20 Q That were identified as standard mail pieces  
21 or identified as something else? I mean, you told me  
22 just a moment ago that none of those pieces that bore  
23 some identification with another subclass were  
24 included at all here.

25 A I can't recall the markings on those six

1 pieces.

2 Q Okay. Let's turn to one last thing on this  
3 scintillating line. Could you turn to PSA-2, please,  
4 your response?

5 In Part (a), and you alluded to this a  
6 moment ago, you said parcel was indicated when the  
7 piece was non-letter and non-flat or if the piece was  
8 "boxed," and you put the word boxed in quotes.

9 What do you mean by boxed? I mean, if it  
10 was in a cardboard container it was a parcel?

11 A That would mean -- well, when I think of  
12 boxed it's some sort of wrapping around the piece,  
13 whether that be paper wrapping, gift wrapping or plain  
14 brown packaging or cardboard. That's kind of what I  
15 mean by boxed.

16 Q So that if my catalog mailers were foolhardy  
17 enough to put the piece in a plain brown wrapper or  
18 because of its outrageously expensive production costs  
19 in some other case before sending it it would be  
20 deemed to be boxed?

21 A Well, boxed is my term.

22 Q What was the term that you instructed your  
23 data collectors to use?

24 A Are we referring to the response to  
25 PSA-T-28?

1 Q Yes.

2 A Let me go to that section where the  
3 preparation field is indicated in the instructions.

4 Now, the preparation field was used solely  
5 for the purpose of helping or directing the data  
6 collector on which direction to measure the length.

7 Q Okay. So the box had no operative  
8 significance here at all?

9 A The preparation field was never used other  
10 than to guide the data collectors in the direction to  
11 which how the length was measured.

12 Q And you go on indeed in your answer to say,  
13 "A value of parcel in the preparation field does not  
14 indicate the piece was a parcel under any definition."

15 A That is true.

16 Q Okay. But in an earlier sentence you say,  
17 "Parcel was indicated when the piece was non-letter  
18 and non-flat," and then you have a citation to a  
19 different part of the DMM than the part that we were  
20 discussing earlier when we were talking about hybrid  
21 parcels and hybrid flats, DMM 101.

22 Will you accept subject to check that the  
23 main difference between DMM 101 and the 300 pieces  
24 that we were discussing, the primary difference is  
25 that it does not include the special rules for UFSM

1 1000 pieces?

2 A Yes, I'll accept that subject to check.

3 Q Okay. So that when they were measuring,  
4 they were measuring in accordance with DMM 101 at  
5 least when the piece was boxed?

6 A No. Regardless of the piece, what DMM  
7 section it fell into, we were taking the actual  
8 physical measurements of the piece and then assigning  
9 it at a later time.

10 Q So it was only for the purpose of  
11 designating parcel that the broader definitions were  
12 used?

13 A Well, yes. It was in the definition of  
14 preparation if you compare those.

15 What we wanted the data collector to do was  
16 get the length measurement correct, so in cases where  
17 it was a single sheet of paper, an envelope or  
18 something wrapped in cardboard or in a full wrapper or  
19 something the measurement is always the longest  
20 dimension. The measurement of length is always the  
21 longest dimension.

22 When the piece is bound or folded then the  
23 measurement of length depends on the position of that  
24 final folder, the bound or folded edge.

25 Q Okay.

1           A     So oftentimes when they were out there in  
2     the field if they knew how to measure the length they  
3     may or may not have correctly filled out the  
4     preparation.

5                     We didn't check the preparation and we  
6     didn't continually tell the data collectors to make  
7     sure that was clearly marked, so there may have been  
8     some measurement error in the preparation field.

9           Q     And there may have been some pieces that  
10    were designated as boxed that were not?

11          A     No. These were never used to designate  
12    anything as boxed.

13          Q     No, but if it wasn't designated boxed and he  
14    used the wrong side you would have no way of knowing  
15    that.

16          A     If they measured the length in the wrong  
17    direction do you mean?

18          Q     Yes.

19          A     No. You would have to rely on the diligence  
20    of the data collector at that point.

21          Q     Okay. Thank you. Let's go to another last  
22    and no less scintillating topic.

23                     Library Reference 33 did not provide you  
24    with the distribution of these pieces that you sampled  
25    by presort level or point of entry, did it?

1           A     No, it did not.

2           Q     Okay.  And indeed while there was some  
3     indication you suggested that you could kind of  
4     determine in some cases whether it was actually run on  
5     a machine, that wasn't really the primary focus on the  
6     survey.  The primary focus of the survey was to get  
7     the pieces that fit into the shapes that we have --

8           A     Yes, the actual physical dimensions of the  
9     piece.

10          Q     Okay.  Library Reference 92 was, however, I  
11     assume -- am I correct in assuming -- used for the  
12     purpose of trying to as best you could derivatively  
13     figure out how these new four or five, whatever,  
14     categories there are were sorted and containerized?  
15     Am I correct in that?

16          A     Library Reference LR-L-92 did not deal with  
17     the hybrids or parcels.

18          Q     At all?

19          A     At all.

20          Q     Okay.  So when you used the term shape in  
21     Library Reference 92, we're not talking about the  
22     shape in the same way that we were in 33?  Is that  
23     correct?

24          A     That is correct.  I believe in 92 we  
25     mentioned that we exclude pieces that were entered at

1 standard parcel rates.

2 Q But it doesn't exclude pieces that were  
3 entered at then existing standard automation flat  
4 rates, did it?

5 A Those are included in 92, yes.

6 Q So that if a piece was categorized by  
7 Library Reference 33 as a hybrid flat it presumably  
8 was in some fashion part of this as well, even though  
9 it was not for this purpose treated as a hybrid flat?

10 A If the piece entered the mail stream as an  
11 automation flat and paid auto flat rates, but it paid  
12 auto flat rates because it met the 301 definition but  
13 not the 101 definition, it would be in 92, yes.

14 Q It would be in 92?

15 A Yes.

16 Q Okay. That helps. Now, we have agreed that  
17 Library Reference 33 did not give you the entry level  
18 or the presort level.

19 Do I understand that the survey was taken  
20 once, that is to say in January 2005, and there was  
21 never any further surveys or studies done?

22 A We didn't conduct any further surveys.

23 Q Do you know whether the Postal Service  
24 conducted any further surveys?

25 A I am not aware of any.

1           Q     Okay.  When Mr. McCrery sent you off on this  
2     task was there any discussion about the question of  
3     whether either volume or indeed thickness, potentially  
4     weight, in January of a year might not be  
5     representative of the year as a whole?

6           A     We were aware of that possibility.

7           Q     You were aware of the possibility.  Was  
8     anything done to control for it in the results?

9           A     Well, we were aware of the possibility, but  
10    we couldn't think of any way or which direction that  
11    would fall, how it would affect the distribution,  
12    whether the distribution was biased in one way or the  
13    other.  We had no information.

14          Q     That might be understandable as to  
15    thickness, possibly shape, but what about volume?

16                I mean, the Postal Service provides reports  
17    on total volumes by subclass, which can be broken out  
18    on a monthly basis.  You decided it wasn't worth the  
19    trouble of trying to figure out whether these volumes  
20    may have been atypically high or conceivably I suppose  
21    atypically low?

22          A     In terms of the overall volume of standard  
23    mail?

24          Q     Of the four categories that we're looking  
25    at.  You would certainly know the overall volume of

1 standard mail. You would know the overall volume of  
2 mail that was entered and paid postage as an  
3 automation flat. You would know the overall volume of  
4 mail that was entered as a standard regular parcel  
5 month over month.

6 Was there any attempt to try to figure out  
7 whether January -- whether this particular January --  
8 was aberrational or was outside the norm in some way  
9 or other as compared to the whole of 2005 or from  
10 prior Januarys?

11 A I believe that I briefly looked at the  
12 relative distribution of flat-shaped mail versus  
13 parcel-shaped mail, but didn't see much variation in  
14 the relative distribution.

15 Q The relative distribution month over month  
16 or year over year?

17 A I believe I did it quarter over quarter.

18 Q Quarter over quarter? Okay.

19 Let's turn now if you would to your response  
20 to Parcel Shipper Association Interrogatory 1. I'm  
21 not going to take you through it. What you were asked  
22 to do was to provide a list of the assumptions and the  
23 basis of each assumption in constructing the  
24 distribution of machineable parcels across rate  
25 elements.

1                   Now, I assume what we're talking about here  
2 is the rate elements that Witness Kiefer has proposed  
3 for standard regular parcels. Is that correct?

4           A       That's my understanding.

5           Q       Okay. You say at the end, and we'll go into  
6 it a little bit further, that the basis for all of  
7 this was the DMM preparation rules.

8                   I have to ask you. Is it DMM 101 or DMM 301  
9 I guess it is that you used for the basis of the  
10 preparation rules?

11          A       For the basis of distributing the parcels?

12          Q       The standard parcels.

13          A       The standard parcels?

14          Q       Right.

15          A       Those were based on the 101 definition. The  
16 current pieces that do not qualify for the 301  
17 definition of auto flats, so the way the DMM rules  
18 today as they apply to pieces that will pay the parcel  
19 surcharge.

20          Q       Wasn't your original definition of a parcel  
21 anything that did not meet the dimensions of an auto  
22 flat so that none of it could qualify and be a parcel?  
23 We're not talking about hybrid parcels here. We're  
24 talking about standard regular parcels.

25          A       Standard regular parcels?

1 Q Yes. That was what the question was about.

2 A Well, I perceived that question to say okay,  
3 in the future what is the current preparation of  
4 pieces that are prepared as parcels.

5 Q But you said when you answered the basis for  
6 the assumptions -- and you were candid and said look,  
7 there were assumptions, and I think that's fine --  
8 that in cases where rate eligibility was not implied  
9 by DMM preparation rules. We're talking about  
10 standard regular parcels.

11 A Right.

12 Q I asked you which rules, and you said 101.  
13 I guess what I really want to ask you is where in 101  
14 do you find preparation rules applicable to standard  
15 regular parcels?

16 A Well, I probably mis-spoke. DMM 101 does  
17 not give preparation rules per se, and I don't have  
18 the DMM in front of me, but if you're going to prepare  
19 pieces that can't be prepared as auto flats or non-  
20 auto flats -- auto letters or non-auto letters -- and  
21 you're mailing them at a standard rate there's a DMM  
22 section that tells you how to prepare those and how to  
23 prepare them if they're machineable parcels and how to  
24 prepare them as non-machineable parcels.

25 It's that section that I relied on to base

1 these assumptions.

2 Q Okay. That helps. The balance of where you  
3 couldn't find the implication in the DMM preparation  
4 rules you said, "I was provided a subjective estimate  
5 by Postal Service personnel familiar with standard  
6 parcels."

7 Is that where the percentages came from,  
8 that subjective estimate?

9 A Yes, I believe it is.

10 Q They weren't terribly creative, were they?  
11 I mean, in every case 90 percent is going to go into  
12 one pot and 10 percent is going to go to the other.

13 A I think they were well reasoned.

14 Q At a conceptual level I think you may well  
15 be right, but what is terribly important to the people  
16 who are going to be mailing this stuff and to the  
17 development of rates is not what the conceptual  
18 fallout is, but how much of my mail is going to fall  
19 into that pot because when the rate witness was here  
20 he was quite clear that the volume distribution is  
21 really very important to him in calculating the  
22 revenue, as it should be, because each one of these  
23 rate pots have a different rate level.

24 What I'm asking is 90 percent/10 percent, 90  
25 percent/10 percent. Those were subjective estimates?

1           A     Those were subjective estimates.

2           Q     And arguably they had people knowledgeable  
3 at headquarters?

4           A     Yes, I believe so.

5           Q     Nobody went into the field to see what was  
6 actually going on?

7           A     To my knowledge, no one went into the field  
8 and did a study of that.

9           Q     Okay. Now, there was one exception to the  
10 90 percent, and I'm kind of curious as to where it  
11 came from.

12                     When you were talking about machineable  
13 parcels, the estimate was that 70 percent of  
14 machineable parcels would be bar coded. Is that  
15 correct?

16           A     That is correct.

17           Q     Where did that percentage come from?  
18 Subjective estimates?

19           A     Subjective estimate.

20           Q     Let's finally turn to PostCom-1, and then I  
21 can stop bothering you.

22                     What we asked you here was not about  
23 standard regular parcels, but about the hybrid  
24 category. Your response was in the development of a  
25 hybrid distribution in 33, no explicit assumptions

1 were made concerning the presort requirements for  
2 hybrid parcels or hybrid flats. There was an implicit  
3 assumption then?

4 A I would say yes, there probably is an  
5 implicit assumption given that we used the preparation  
6 distribution of what is currently prepared as standard  
7 UFSM 1000 flats as a distribution key for these.

8 Q You were careful to say the presort  
9 requirements. You go on to say that in terms of entry  
10 you used the 2005 entry discount distribution of  
11 standard parcels.

12 A Yes.

13 Q So you did not use the 1000 flats when it  
14 came to entry. Why did you use parcels?

15 A Because it was believed that the -- well,  
16 first, we don't know much about how the pieces that  
17 will be hybrid will shake out and how large the  
18 mailings are, what type of entry that they will --

19 Through discussion it was thought that the  
20 entry profile of these would probably be closer, given  
21 that we had to make an assumption; that the entry  
22 profile of these pieces would be more similar to what  
23 is currently being mailed as a parcel than what is  
24 currently being mailed as a flat.

25 Q Doesn't that depend upon the price signal

1 that you give through the sortation discounts?

2 A I think a pricing witness would be a better  
3 person to ask that to.

4 MR. VOLNER: I have no further questions,  
5 Mr. Chairman. Thank you very much.

6 CHAIRMAN OMAS: Thank you, Mr. Volner.

7 Mr. Hall? Mr. Hall, would you please  
8 introduce yourself and who you represent?

9 MR. HALL: Mr. Chairman, Mr. Loetscher, my  
10 name is Mike Hall. I represent the Major Mailers  
11 Association.

12 Mr. Chairman, if we could have just a second  
13 to make some connections here I'd appreciate it.

14 (Pause.)

15 CROSS-EXAMINATION

16 BY MR. HALL:

17 Q Mr. Loetscher, I'd like to ask you today  
18 some questions.

19 CHAIRMAN OMAS: Would you check and see if  
20 your mic is on? Thank you.

21 MR. HALL: I have to apologize to everybody.  
22 I'm going to try to whisper today since I seemed to  
23 have been booming the other day.

24 Maybe, Mr. Loetscher, you can tell me if you  
25 don't hear me, and please tell me if I'm speaking too

1 loud.

2 BY MR. HALL:

3 Q As I started to say, I'd like to ask you  
4 some questions today about the BRM practices study  
5 that is incorporated in Library Reference 34 that you  
6 sponsored.

7 A Okay.

8 Q To begin with, were you the person at  
9 Christensen Associates that was responsible for design  
10 and conduct of the study?

11 A Yes, I was.

12 Q Okay. There's another gentleman mentioned  
13 in there, Mr. Eakin.

14 A Kelly Eakin.

15 Q Yes.

16 A He worked along side me.

17 Q Okay. What were his functions exactly?

18 A Well, we had very parallel functions in  
19 this. He, like me, is familiar with sampling methods,  
20 and we consulted on sampling methods and sampling  
21 design.

22 We worked together on the whole thing you  
23 could say. We didn't have well defined functions.

24 Q But Mr. Eakin was the point man in terms of  
25 contacts with the local post offices where samples

1 were being taken?

2 A There were several staff members that were  
3 assigned contacts or being the point man. If my  
4 recollection is correct it wasn't directly Mr. Eakin.  
5 It was another individual at our firm.

6 Q And his name is?

7 A Jeff Carrol.

8 Q Could you spell that for the reporter,  
9 please?

10 A I hope so. Subject to check, I think it's  
11 C-A-R-R-O-L.

12 Q That will make any complicated calculations  
13 I ask you to accept subject to check more reasonable I  
14 hope.

15 The instructions that are included with the  
16 library reference appear to indicate that they came  
17 from headquarters. Is that correct?

18 A No. We developed those.

19 Q You developed those, but you developed them  
20 in consultation with which person or persons at the  
21 Postal Service?

22 A Is it okay if I can't remember them all?

23 Q Well, actually what I'd just like to know is  
24 the person who was I guess your counterpart at the  
25 Postal Service that was responsible for hiring your

1 firm and initiating conduct of the study.

2 A I believe Jenny Mayes was the person that  
3 contacted our firm and initiated the study, and she  
4 had a BRM team which we filed all of our instructions  
5 and survey forms and sample methodology and results  
6 through, but I cannot recall all their names right  
7 now.

8 Q But she was in charge of that team?

9 A I believe she was.

10 Q Okay. As you were developing this new  
11 study, what sort of background material did you  
12 review?

13 A The primary material we reviewed was the R97  
14 BRM mail practices study, the 97-1 study. That was I  
15 think the piece that we reviewed.

16 Q Okay. I note that if you have it with you  
17 great, but my reference is a file, an Excel file  
18 called sitematrix\_w\_466\_st4.

19 A I don't have that with me.

20 MR. REIMER: Is it in the library reference?

21 MR. HALL: It's an Excel work product. It's  
22 part of the library reference.

23 If you have that on your computer and could  
24 provide the witness with your computer? If not, we  
25 can do so.

1 BY MR. HALL:

2 Q Mr. Loetscher, I'm having my colleague, Mr.  
3 Richard Bentley, show you that file.

4 A Okay.

5 Q And I believe it is on the tab where you  
6 explode the results. That's my untutored term for it,  
7 but in any case I believe you show information from  
8 the 1997 BRM practices study there.

9 A What page?

10 Q It's the Pivots is one place where it  
11 appears.

12 A There's my mouse. Yes.

13 Q Okay. And you see that the information is  
14 there for the 1997 BRM practices study?

15 A Yes, I do.

16 Q What was the purpose of including that  
17 information there?

18 A For comparison.

19 Q Were you trying to get a gauge on the  
20 accuracy or likely accuracy and reasonableness of the  
21 results by comparing it to the 1997 BRM practices  
22 study?

23 A We were trying to see how things changed.

24 Q Okay. What were your conclusions from that  
25 comparison?

1           A     The primary conclusion was that the  
2     proportion of mail that is manually counted has  
3     decreased substantially between the two studies.

4           Q     Okay. Do you know that at the time the 1997  
5     BRM practices study was conducted that there was no  
6     such thing as high volume QBRM?

7           A     Yes.

8           Q     Okay. Before or as you were conducting your  
9     study or as you were compiling your results and trying  
10    to determine if they were reasonable and ready for  
11    presentation to the Postal Rate Commission did you by  
12    any chance have occasion to review USPS Witness Chris  
13    Campbell's testimony in R2000-1?

14          A     No, I didn't review Chris Campbell's  
15    testimony.

16          Q     Did you by any chance review Mr. Bentley's  
17    testimony on behalf of Keyspan Energy in that case?

18          A     No, I did not.

19          Q     Did you happen to review a survey that Mr.  
20    Campbell conducted as part of that case?

21          A     No, I did not.

22          Q     And just to make sure that we're talking  
23    about the same thing, that was a survey of  
24    approximately 75 high volume QBRM sites?

25          A     I did not review that.

1 Q Did you review the Commission's decision in  
2 R2000-1?

3 A No, I did not.

4 Q So you wouldn't know whether or not the  
5 Commission relied on the 1997 BRM practices study in  
6 making its decision or whether it relied on some other  
7 information?

8 A In 1997?

9 Q No, in R2000-1.

10 A No, I wouldn't know about R2000-1.

11 Q So the BRM team at headquarters, including  
12 Ms. Mayes, didn't bring any of these to your  
13 attention?

14 A No. They mentioned the R97 study, which was  
15 the last time a comprehensive BRM practice study was  
16 conducted.

17 Q And by a comprehensive practice study you  
18 mean a study based on a sampling of data that are  
19 recorded during a certain period of time and then  
20 expanded to the universe of QBRM and -- pardon me --  
21 business reply mail customers using statistical tools?

22 A Yes. It was my understanding that the last  
23 comprehensive study of all BRM mail was the R97 study.

24 Q Okay. I take it then that you were not  
25 aware of anything in R2001-1 relating to the

1 methodology for determining the percentages of BRM and  
2 high volume QBRM that were to be used to calculate  
3 rates?

4 A I briefly reviewed Mike Miller's library  
5 reference in that case, in the R2000-1 case.

6 Q And when did you review that?

7 A A couple days ago.

8 Q And that was the first time you'd seen that?

9 A That was the first time I saw that.

10 Q Do you recall what Mr. Miller did in that  
11 case?

12 A I wouldn't say I'm an expert, but I have a  
13 general understanding of what he did in that case.

14 Q I've just had my colleague show you a  
15 document that has three pages and is identified in the  
16 upper right-hand corner as USPS-LR-J-60, page 104A, B  
17 and C.

18 Is that the Mike Miller information that you  
19 saw a couple of days ago?

20 A Subject to check, it looks an awful lot like  
21 it, yes.

22 Q Okay. How did you come to review this data  
23 a few days ago?

24 A I think it was in response to your  
25 questioning of Abdul.

1 Q Okay. So somebody came racing back and said  
2 Mike Hall is going to beat you over the head with  
3 this, so maybe you ought to study it?

4 A Honestly, yes, it was something like that.

5 Q If you turn to the final page there, do you  
6 see the percentage of QBRM that was counted manually?

7 A Yes.

8 Q And what is that percentage?

9 A .38 percent. Yes.

10 MR. HALL: Mr Chairman, at this time I would  
11 like to have the document that we've been discussing  
12 marked as an exhibit in this case.

13 I believe I've already described it, and I  
14 would like to have it identified as Exhibit MMA dash  
15 however you would like to.

16 CHAIRMAN OMAS: It's not however I would  
17 like it. I think it's however you would like it.  
18 Exhibit XE-1, I guess.

19 MR. HALL: XE-1.

20 CHAIRMAN OMAS: I think that's up to you,  
21 Mr. Hall, to make those decisions.

22 (The document referred to was  
23 marked for identification as  
24 Exhibit No. MMA-XE-1.)

25 MR. REIMER: No objection.

1                   CHAIRMAN OMAS: Without objection. So  
2 ordered.

3                   MR. HALL: My colleague is giving two copies  
4 to the reporter for the record, and I move that it be  
5 admitted into evidence.

6                   MR. REIMER: No objection.

7                   CHAIRMAN OMAS: Without objection. I  
8 thought we had already moved it into evidence.

9                   It's moved into evidence, and it will be  
10 transcribed.

11                   MR. HALL: Thank you.

12   (The document referred to,  
13 previously identified as  
14 Exhibit No. MMA-XE-1, was  
15 received in evidence.)

16           //

17           //

18           //

19           //

20           //

21           //

22           //

23           //

24           //

25           //

FY2000 BRM ACTIVITY - CBCIS

TOP 151 QBRM (TOTAL) ACCOUNTS

No.	Index	Total QBRM		Other Software	BRMAS	E.O.R.	Counting Machine	Manual	Weight Averaging
		Revenue	Pieces						
1	BR	16,066,456	49,405,413	49,405,413					
2	BR	14,366,622	41,048,062		41,048,062				
3	BR	3,663,677	11,693,366		11,693,366				
4	BR	3,196,365	9,137,280			9,137,280			
5	BR	2,435,191	6,957,689			6,957,689			
6	BR	1,302,079	5,121,491		5,121,491				
7	BR	1,329,788	4,918,797			4,918,797			
8	BR	1,462,462	4,637,096		4,637,096				
9	BR	1,469,366	4,570,147		4,570,147				
10	BR	1,619,371	4,482,677		4,482,677				
11	BR	1,322,520	3,778,626		3,778,626				
12	BR	1,215,519	3,472,910		3,472,910				
13	BR	1,121,889	3,205,396			3,205,396			
14	BR	1,033,967	3,105,235			3,105,235			
15	BR	991,945	3,051,132			3,051,132			
16	BR	1,000,164	2,872,157		2,872,157				
17	BR	1,000,817	2,857,049		2,857,049				
18	BR	962,562	2,807,339		2,807,339				
19	BR	714,832	2,790,415			2,790,415			
20	BR	580,258	2,327,589		2,327,589				
21	BR	782,807	2,236,558			2,236,558			
22	BR	721,351	2,150,546			2,150,546			
23	BR	744,849	2,128,127			2,128,127			
24	BR	726,906	2,075,988		2,075,988				
5	BR	720,178	2,057,655		2,057,655				
26	BR	691,381	1,986,763		1,986,763				
27	BR	694,667	1,984,866		1,984,866				
28	BR	690,673	1,973,350			1,973,350			
29	BR	436,839	1,907,742						1,907,742
30	BR	657,485	1,878,528			1,878,528			
31	BR	648,072	1,851,635		1,851,635				
32	BR	524,909	1,849,466			1,849,466			
33	BR	626,275	1,789,696		1,789,696				
34	BR	602,701	1,722,002		1,722,002				
35	BR	445,271	1,705,356		1,705,356				
36	BR	575,429	1,644,111				1,644,111		
37	BR	546,754	1,640,812		1,640,812				
38	BR	557,796	1,593,388			1,593,388			
39	BR	432,125	1,491,995			1,491,995			
40	BR	500,959	1,431,312		1,431,312				
41	BR	401,291	1,377,515			1,377,515			
42	BR	465,859	1,331,027				1,331,027		
43	BR	462,460	1,321,314			1,321,314			
44	BR	321,948	1,314,045		1,314,045				
45	BR	458,249	1,309,278		1,309,278				
46	BR	446,218	1,274,902		1,274,902				
47	BR	426,115	1,222,934			1,222,934			
48	BR	421,114	1,203,746			1,203,746			
49	BR	475,054	1,195,898		1,195,898				
50	BR	373,239	1,193,054			1,193,054			
51	BR	413,002	1,180,005			1,180,005			
52	BR	412,904	1,179,725			1,179,725			
53	BR	407,738	1,165,442		1,165,442				
54	BR	384,405	1,096,260		1,096,260				

55	BR	380,474	1,067,068		1,067,068	
56	BR	378,771	1,078,488	1,078,488		
57	BR	342,360	1,044,200	1,044,200		
58	BR	363,323	1,037,989	1,037,989		
59	BR	337,339	1,031,418	1,031,418		
60	BR	354,893	1,013,408	1,013,408		
61	BR	352,013	1,005,744	1,005,744		
62	BR	350,813	1,002,319		1,002,319	
63	BR	348,898	988,853	988,853		
64	BR	343,126	984,290	984,290		
65	BR	343,794	982,524		982,524	
66	BR	342,828	979,567		979,567	
67	BR	224,897	977,852	977,852		
68	BR	338,769	967,910		967,910	
69	BR	332,486	950,863	950,863		
70	BR	323,416	940,980	940,980		
71	BR	328,380	938,229	938,229		
72	BR	327,890	937,871	937,871		
73	BR	327,833	935,191			935,191
74	BR	319,487	928,580		928,580	
75	BR	309,025	918,247	918,247		
76	BR	317,801	907,430	907,430		
77	BR	315,900	902,572	902,572		
78	BR	312,528	892,937		892,937	
79	BR	310,811	892,827	892,827		
80	BR	246,198	888,910		888,910	
81	BR	246,498	888,122		888,122	
82	BR	309,565	884,470		884,470	
83	BR	202,179	877,273			877,273
84	BR	305,195	871,985			871,985
85	BR	213,847	867,427		867,427	
86	BR	282,374	862,797		862,797	
87	BR	333,710	861,153		861,153	
88	BR	298,853	853,865	853,865		
89	BR	296,616	844,617	844,617		
90	BR	291,871	841,416	841,416		
91	BR	191,324	831,845		831,845	
92	BR	288,858	825,455		825,455	
93	BR	288,323	823,004		823,004	
94	BR	187,061	813,309			813,309
95	BR	270,582	781,528		781,528	
96	BR	212,646	780,143		780,143	
97	BR	270,432	772,955		772,955	
98	BR	268,841	762,402		762,402	
99	BR	265,953	759,816	759,816		
100	BR	258,144	737,570		737,570	
101	BR	218,920	736,169		736,169	
102	BR	251,904	719,727		719,727	
103	BR	251,795	719,418		719,418	
104	BR	248,634	711,947		711,947	
105	BR	171,681	711,511		711,511	
106	BR	248,289	710,075	710,075		
107	BR	247,777	707,931	707,931		
108	BR	228,611	704,530		704,530	
109	BR	208,813	695,030		695,030	
110	BR	241,554	690,147			690,147
111	BR	240,207	688,177		688,177	
112	BR	239,083	683,094	683,094		
113	BR	238,688	681,867	681,867		
114	BR	237,812	679,456	679,456		
115	BR	159,805	677,786			677,786

116	BR	236,403	677,746	677,746				
117	BR	233,704	668,578	668,578				
119	BR	232,600	664,414		664,414			
	BR	228,922	658,919	658,919				
	BR	228,637	653,250	653,250				
121	BR	154,782	651,176		651,176			
122	BR	227,479	649,941	649,941				
123	BR	224,991	643,205		643,205			
124	BR	220,040	628,686		628,686			
125	BR	214,661	613,766	613,766				
126	BR	213,887	611,105		611,105			
127	BR	214,237	610,823			610,823		
128	BR	213,113	608,894		608,894			
129	BR	138,498	601,228	601,228				
130	BR	208,318	596,825	596,825				
131	BR	208,239	595,249				595,249	
132	BR	208,242	594,976	594,976				
133	BR	207,609	593,169		593,169			
134	BR	213,950	590,557		590,557			
135	BR	205,585	587,387	587,387				
136	BR	135,940	582,854		582,854			
137	BR	202,518	578,806		578,806			
138	BR	132,370	574,990					574,990
139	BR	197,328	567,844	567,844				
140	BR	198,067	560,160	560,160				
141	BR	195,721	559,236		559,236			
142	BR	192,571	549,304		549,304			
143	BR	189,680	542,625				542,625	
144	BR	188,914	540,628	540,628				
145	BR	185,889	531,309	531,309				
9	BR	179,088	525,711		525,711			
7	BR	181,736	519,240	519,240				
148	BR	161,005	517,158		517,158			
149	BR	180,130	515,779	515,779				
150	BR	178,667	510,478		510,478			
151	BR	220,054	506,348		506,348			

Grand Total	Total	Total	Total	Total	Total	Total	Total
300,159,336	49,405,413	148,125,043	90,556,522	3,586,061	1,137,874	7,348,423	
100.00%	16.46%	49.35%	30.17%	1.19%	0.38%	2.45%	
	Other Software	BRMAS	E.O.R.	Counting Machine	Manual	Weight Averaging	

1 BY MR. HALL:

2 Q The new BRM practices study that you  
3 conducted or the one that was conducted under your  
4 supervision was conducted over a period of three days.  
5 Is that correct?

6 A The data collection -- I believe that is  
7 listed in the instruction sheet where the data  
8 collection occurred over a five day period. Yes.

9 Q Okay.

10 A But each site was asked to collect data for  
11 three days.

12 Q And was that three consecutive days?

13 A Yes, I believe so.

14 Q Okay. I looked for the actual results, the  
15 unexploded results of that data collection effort, but  
16 I couldn't find them. Are they somewhere in Library  
17 Reference 34?

18 A Let me see if I can find the -- the raw  
19 sample data I hope was provided as a file called  
20 alldata2 that's listed on page 34 of the library  
21 reference.

22 MR. HALL: If we could just have a moment,  
23 Mr. Chairman?

24 CHAIRMAN OMAS: Yes.

25 MR. HALL: Or perhaps the best way to

1 proceed is we can work informally with counsel and the  
2 witness and either locate the data within the library  
3 reference, which from my understanding it has a few  
4 files that I understand, .pdf and Excel, and then  
5 there are many other files that look to be a  
6 programming language to me.

7 CHAIRMAN OMAS: Mr. Reimer, can you assist  
8 in finding this?

9 Why don't we take a five minute break, a  
10 real quick break, and then we'll proceed after that so  
11 we can get it together.

12 Thank you.

13 (Whereupon, a short recess was taken.)

14 CHAIRMAN OMAS: Mr. Hall, are you ready to  
15 proceed?

16 MR. HALL: Yes, I am, Mr. Chairman, and  
17 thank you for the opportunity to review the question  
18 informally.

19 Mr. Loetscher and counsel have been very  
20 cooperative, and we've now found the file. It is  
21 indeed in the library reference.

22 CHAIRMAN OMAS: Good. Does that end your  
23 cross-examination?

24 MR. HALL: I hope so. Almost. Almost.

25 CHAIRMAN OMAS: Just kidding.

1 BY MR. HALL:

2 Q I forgot to ask you one question about what  
3 you reviewed as either before, during or as you were  
4 compiling the results from this new study.

5 Did the headquarters team provide you with  
6 any statements of USPS policy on using more automated  
7 methods of counting business reply mail?

8 A Not to my knowledge they didn't. I don't  
9 recall seeing any.

10 Q Okay. Now, I believe part of the  
11 instructions referred to a methodology for dealing  
12 with errors or inconsistencies. Do you recall that?

13 A The instructions? Where are you reading  
14 from?

15 Q I don't have an exact page reference, but if  
16 you can trust me that it's there?

17 MR. REIMER: They begin at page 21.

18 MR. HALL: Okay.

19 BY MR. HALL:

20 Q What I'm talking about are the actual  
21 instructions from headquarters.

22 A And what type of errors are you referring  
23 to? Are you talking about --

24 Q In this I'll call it a memorandum or an  
25 instruction that came out from headquarters in

1 connection with setting up the study.

2 For example, that's where I saw that Mr.  
3 Eakin was the person to whom errors or inconsistencies  
4 could be reported.

5 A I don't see where it says errors or  
6 inconsistencies.

7 Q Maybe it said the data would be checked and  
8 validated.

9 A Well, it doesn't say that in the  
10 instructions. I mean, if they had questions or  
11 encountered problems it says in the instructions on  
12 page 23 they could contact Mr. Eakin.

13 Q Okay.

14 A And that was so that people at the sites  
15 would have someone to contact if they were confused at  
16 how they were to implement the data collection or if  
17 they had any questions about, you know, I've got this  
18 weird situation where -- who knows what that weird  
19 situation may have been, but if they had questions on  
20 how they wanted us to record data or wanted us to have  
21 them record data they could contact us.

22 Q Okay. Well, when you got back the results  
23 and you were tabulating them and looking at what they  
24 produced -- I think we're all on the same page.

25 It does actually mention errors there I

1 believe, but in any case as you were getting all of  
2 this information back and tabulating it, aggregating  
3 it, whatever it is that you do for a study like this,  
4 was there any pattern of errors or inconsistencies  
5 that you found?

6 A I can't recall any pattern.

7 Q Well, were there a lot of calls about  
8 possible errors?

9 A There were calls about possible errors. I  
10 would characterize them more as random scatterings of  
11 errors rather than patterns.

12 Q And when you say there were calls, were  
13 these calls initiated by you or your staff based on  
14 the results you saw, or were they more calls from the  
15 field saying what do I do in this situation as you've  
16 described them?

17 A Okay. If we got something back and we said  
18 this doesn't make sense, we would call the field, get  
19 to the office, to the person who filled out the form,  
20 and resolve any questions that we might have.

21 Q Okay. But there was no particular pattern  
22 in those errors or inconsistencies that you saw?

23 A I can't think of any pattern.

24 Q And they generally dealt with what subject  
25 matter?

1           A     Data recorded in the wrong field, missing  
2 information.

3           Q     Okay.

4           A     The usual things that you incur in sampling.

5           Q     Okay. Thank you. I provided you before  
6 with a sheet of paper with a lot of yellow on it, and  
7 I've provided a copy to your counsel.

8                     I will tell you that it is something we did  
9 based upon your information, and I believe it was  
10 specifically in the file that I identified before that  
11 was sitematrix, et cetera, et cetera.

12                    I'll tell you what we've done here is we  
13 isolated information where the rate paid was high  
14 volume QBRM and there was manual counting. Then we  
15 sorted it beginning at the top with the highest number  
16 of pieces.

17                    By the way, I'd like you to verify. You'll  
18 see the total is 29,523,556. That is an annual figure  
19 based on your study. Is that correct?

20           A     I believe so.

21           Q     Okay. Now, we did do something else here,  
22 and that is we added a column called Average Pieces  
23 Per Day.

24                    What we did in that column was to take the  
25 number of annual pieces in the column marked Pieces

1 and divided by 300 as a rough measure of the number of  
2 days so that we could come up with an average pieces  
3 per day. Do you see that?

4 A Yes, I do. What did you use for per day?

5 Q We used 300 total days in a year.

6 A Okay.

7 Q Can we agree that that's a rough ballpark of  
8 the number of days that QBRM would be processed in a  
9 year?

10 A Yes. These are by three digit zip codes.  
11 That would be in average pieces. I'd like to point  
12 out that these don't point to one particular account.

13 Q That's okay. I understand.

14 A Okay.

15 Q Let's look at the highest average pieces per  
16 day which is 35,321. Do you recognize that would take  
17 approximately 10 man hours to count that number of  
18 pieces manually each day?

19 A Yeah. Like I said that 971 I believe was a  
20 California site and that California site is one of the  
21 randomly selected sites that wasn't meant to represent  
22 our certainty strata. Yeah. We had a certainty  
23 strata with the largest 23 sites and then we selected  
24 20 other sites to represent the other 833 zip codes.

25 So we've blown up the information that we

1 got from 917 to represent the universe. So that's how  
2 917's share of the universe of the noncertainty pieces  
3 is. It doesn't mean that they're counting 35,000  
4 pieces at that one particular site.

5 Q Well, does it mean that they counted  
6 10,596,192 pieces per year at that site?

7 A No, it doesn't. It's sort of like we've got  
8 10 people and we sampled two of them. Each of those  
9 people, each one that we sample will represent five  
10 people. Does that make any sense? So say we wanted  
11 to get the average weight of the number of people in  
12 the front row and --

13 Q That's a delicate subject, so let's not.  
14 Just for myself.

15 A -- we randomly selected two of them.

16 Q Let me try this a different way. I want to  
17 understand if the 29,523,556 pieces were used by you  
18 to calculate the 26.6 percent of total high volume  
19 QBRM pieces that are manually counted.

20 A The 29 million?

21 Q Yes.

22 A Yes, they were.

23 MR. HALL: Those are all the questions I  
24 have.

25 CHAIRMAN OMAS: Thank you, Mr. Hall.

1                   Our next is Mr. May with Parcel Shippers  
2 Association. Mr. May, would you introduce yourself?

3                   CROSS-EXAMINATION

4                   BY MR. MAY:

5                   Q     Mr. Loetscher, I'm Tim May. I'm counsel for  
6 the Parcel Shippers Association. If you would direct  
7 your attention to your response to Parcel Shippers  
8 Question T-28-1. In that question we asked you to  
9 list all of the assumptions that you used to, "map"  
10 the FY2005 distribution of standard mail parcels by  
11 presort rate and entry discount into the proposed rate  
12 elements. Is that correct?

13                  A     That's correct.

14                  Q     Now, let me just start by asking you why you  
15 had to make any assumptions to determine the volume of  
16 parcels by rate category?

17                  A     Because currently the only information we  
18 have on parcels is -- we don't have any on the  
19 proposed rate categories.

20                  Q     Right, because these are all new rate  
21 categories, and so there would be no actual data.

22                  A     Right.

23                  Q     So would you agree then that their estimates  
24 of volume of parcel data by rate category is somewhat  
25 less than perfect?

1           A     Yeah.  When you have to make assumptions  
2     like that it's --

3           Q     Yes.  Obviously it would be better if the  
4     basis of the parcel volume data was real data and not  
5     assumptions obviously.  Is that right?

6           A     I would agree.

7           Q     Now, some of the assumptions you made were  
8     implied by the domestic mail manual I think you said?

9           A     Right.

10          Q     Others were I think to use your term  
11     subjective.  Is that correct?

12          A     Subjective estimates from Postal Service  
13     experts familiar with parcel mail.

14          Q     Yes.  You concluded your answer by saying I  
15     was provided a subjective estimate by Postal Service  
16     personnel familiar with standard parcels?

17          A     Correct.  Yes.

18          Q     So some of these were subjective?

19          A     Certainly.  Yes.

20          Q     Without going through all of your  
21     assumptions could you tell me how many of those  
22     assumptions are subjective?

23          A     Well, the 90-10 split is kind of half  
24     subjective, half DMM-based.  I say that because under  
25     the proposed rates in the preparation rules currently

1 parcels that are in mixed ADC containers or ADC  
2 containers pay the basic rate, so we know the number  
3 of basic parcels that there are and we know that these  
4 would according to DMM rules either be in a mixed ADC  
5 container or an ADC container.

6           However, we don't know the split between how  
7 many are in ADC containers and mixed ADC containers.  
8 Did I say that right?

9           Q     Yes.

10          A     So the assumption had to be made how much  
11 was in ADC and how much was in mixed ADC.

12          Q     Obviously as you would describe it  
13 subjective? That portion of it?

14          A     The portion of what was 10 percent and the  
15 portion of what is 90 percent.

16          Q     Another I think example that you gave Mr.  
17 Volner was that the figure you used of 70 percent of  
18 machinable mail is barcoded, that you told him that  
19 was subjective as well?

20          A     Yes. I think it's reasonable, but it's  
21 subjective.

22          Q     Now, I'd like to direct your attention to  
23 packages that are under three-quarters of an inch,  
24 that are three-quarters of an inch or less, but that  
25 are prepared as parcels, so if you'd look to your

1 response to PSA/USPS-T-28-2b?

2 A Uh-huh.

3 Q There you indicate that inflated to RPW  
4 totals your survey of the characteristics of standard  
5 regular nonletters, which you derived from Library  
6 Reference L-33, found that there are approximately 220  
7 million pieces that were prepared as parcels and are  
8 less than three-quarters of an inch thick. Am I  
9 correct?

10 A No, you're not. What you asked us to do in  
11 that question was define the parcel preparation field  
12 and then tell us how many pieces were marked as parcel  
13 preparation that were less than three-quarters of an  
14 inch thick. I tried to explain, and I probably didn't  
15 do this all that well.

16 Parcel preparation in our survey doesn't  
17 mean parcel preparation according to the DMM rules.  
18 Now, when I read the DMM rules I read parcel  
19 preparation as you're not preparing the pieces in  
20 bundles on pallets, you're preparing pieces in loose  
21 bundles, in sacks and/or pieces on pallets, okay,  
22 large boxes, BMC boxes. There's different preparation  
23 rules for parcels, letters and flats.

24 We were doing our sampling at destinations,  
25 and so there was absolutely no way to be able to tell

1       how those pieces were prepared for acceptance.  So I  
2       think that's a confusion in what preparation meant.  
3       On the form that preparation field was simply to guide  
4       the data collectors into how to measure length.

5                 If the piece had a bound or folded edge they  
6       were to measure the length as the dimension parallel  
7       to that last edge.

8                 Q     Let me ask you this again.  The question is  
9       in your answer did you not say, "inflated to RPW  
10      220,307,088 pieces were recorded as having a  
11      preparation of 'parcel' and were less than three-  
12      quarters inch thick".  Isn't that a direct quote from  
13      your response?

14                A     Yeah.  Then the second sentence says --

15                Q     You did say that, right?

16                A     Yeah, I said that, but the second sentence  
17      says --

18                Q     Well, that's all I asked you about.  I  
19      hadn't asked you about the second sentence.

20                MR. REIMER:  Ask that the witness be allowed  
21      to answer the question.

22                CHAIRMAN OMAS:  Mr. May, would you allow the  
23      witness to finish his answer?

24                MR. MAY:  Well, if it's an answer to my  
25      question yes, Mr. Chairman.  I asked whether or not

1 the witness made that statement.

2 CHAIRMAN OMAS: He answered yes.

3 MR. MAY: His answer is yes.

4 CHAIRMAN OMAS: Then he wanted to follow-up.  
5 I think he should be allowed to follow-up.

6 BY MR. MAY:

7 Q Which question are you going to answer when  
8 you follow-up?

9 MR. REIMER: We could ask him on redirect.  
10 The Postal Service will ask him on redirect.

11 CHAIRMAN OMAS: Fine. Thank you.

12 BY MR. MAY:

13 Q Now let's talk about what your survey  
14 defined as, "parcel preparation", which I think you do  
15 want to talk about. Am I right that this category  
16 included in your answer: 1) pieces that did not meet  
17 the DMM 101 definition of a letter or flat; and 2)  
18 pieces that were boxed? Again, I believe that's a  
19 direct quote out of your answer to 2a.

20 A The PSA-2a?

21 Q Yes. "Parcel was indicated when the piece  
22 was nonletter and nonflat, DMM 101 definitions, or if  
23 the piece was boxed." That is your statement is it  
24 not?

25 A That is my statement.

1           Q     Am I right that most pieces under three-  
2     quarters of an inch thick would meet the current DMM  
3     101 definition of a letter or a flat?

4           A     Yes.

5           Q     So most of these 220 million pieces were  
6     boxed were they not?

7           A     They were either boxed or the preparation  
8     field was filled out incorrectly.

9           Q     Now, by boxed I assume you mean something  
10    like this? This is three-quarters of an inch thick  
11    and it appears to have a box around it. Is that what  
12    you mean by boxed?

13          A     If I were in the field and I was sampling  
14    that piece I would say that the direction that you  
15    would measure the length was the longest dimension  
16    because it's kind of boxie.

17          Q     It's your term box. This is what you mean  
18    by a box?

19          A     It would also include pieces that were  
20    wrapped, pieces that were sealed.

21          Q     Now, I guess you're aware aren't you that  
22    there are a lot of these in the mail? These things  
23    that look like this? A lot of the AOL pieces, DVDs.  
24    There are a lot of things that look like this aren't  
25    there that are three-quarters of an inch or less?

1 A Relative to what?

2 Q Pardon me?

3 A Relative to what? I wouldn't want to carry  
4 them around, but --

5 Q No. You said 220 million of these pieces  
6 were either boxed or they had filled out the wrong  
7 field in there.

8 A Right. So that doesn't mean that there's  
9 220 million of those pieces.

10 Q You have no idea what the proportions would  
11 be?

12 A I have no idea how many of those pieces  
13 there are out there.

14 Q If they're not boxed that implies there must  
15 have been a lot of mistakes made wouldn't it? If half  
16 of them were not boxed then there would be half of the  
17 forms were filled out incorrectly?

18 A Like I tried to explain in the results that  
19 field was just in there to guide data collectors in  
20 the dimensions in which to measure the length --

21 Q Yes, and your answer -- excuse me. Go  
22 ahead.

23 A And if you look at the -- if I can find the  
24 form that I used you notice that parcel occurs at the  
25 very first.

1 Q Yes.

2 A I think it's highly likely since we knew  
3 that the sole purpose of that field was to direct  
4 people on which direction to measure the length, I  
5 think some people could have gotten lazy and said I  
6 know if this one is the longest dimension I'm going to  
7 circle parcel.

8 Q What percentage of these people were lazy?  
9 You mean half of them or how many lazy employees did  
10 we have here?

11 A They weren't lazy, but I'm just trying to  
12 make the point that just because it said parcel  
13 preparation in that field doesn't necessarily -- we  
14 haven't investigated that field, and I have no  
15 confidence in that field whereas we've looked at the  
16 other field and are confident in those.

17 Q Now, you do make this point in your answer  
18 to PSA-28-2a as you've alluded to it several times.  
19 You say that a value of parcel in the prep field does  
20 not indicate the piece was a parcel under any  
21 definition?

22 A Right.

23 Q Now, given that it does not indicate  
24 anything why did you use the term, "parcel"  
25 preparation in the survey? Why did you use that term?

1           A     Because I think in the common vernacular  
2 when you say parcel people have an idea that this is a  
3 piece that doesn't have any open edges and it helped  
4 the data collectors identify --

5           Q     Or is it because when employees look at  
6 something boxed like this they think parcel? When  
7 they see something in their mind they think parcel and  
8 not flat? They think parcel?

9           A     Uh-huh.

10          Q     Thank you. Now finally to the response to  
11 POIR No. 5, Question 16(b), copies of which I will  
12 distribute. I'll give you a moment to scan this  
13 response of Mr. Harahush.

14                   (Witness reviews document.)

15          A     Okay.

16          Q     Now, in his response, Witness Harahush talks  
17 about inconsistencies between how the RPW system  
18 defines shape and how cost systems define shapes. Now  
19 one item that Mr. Harahush discusses in that response  
20 is that automation flats that are more than three-  
21 quarters inch thick -- more than -- are recorded as  
22 flats by RPW and parcels in the cost system. You're  
23 aware of that now?

24          A     Yes. That's what he said.

25          Q     Now, what I want to talk about are these

1 boxed pieces here that are under three-quarters of an  
2 inch thick, not the ones that are over. In his  
3 response to that same POIR Mr. Harahush -- if you'll  
4 look at the third page of that POIR response you'll  
5 see that he lists human error as a possible reason for  
6 inconsistencies between RPW and cost systems.

7 Is there any chance that the costs for some  
8 of these boxed pieces under three-quarters inch thick  
9 are accidentally recorded as parcel costs by the cost  
10 systems due to human error?

11 A I'm not the cost witness. I couldn't speak  
12 to that. I can tell you how we recorded them.

13 Q Well, I'm just asking you of the likelihood  
14 or the possibility that when he refers to human error  
15 he's referring to the fact that an observer or someone  
16 handling this would think this is a parcel and not a  
17 flat since you yourself said that one of the reasons  
18 in your preparation field for using the word parcel  
19 was the tendency of employees when they see something  
20 like this to think parcel.

21 MR. REIMER: Objection. That  
22 mischaracterizes the witness' testimony when he says  
23 employees. The witness can answer the question  
24 regarding his own employees who conducted the survey.

25 MR. MAY: That's fine.

1           THE WITNESS: Could you repeat the question,  
2 please?

3           BY MR. MAY:

4           Q     I asked you why you had used the word parcel  
5 in the preparation field previously and whether or not  
6 it was used because the tendency of folks handling  
7 these parcels when they see them to think parcel and  
8 not to think flat even though they're flats and that  
9 therefore they would mark down a parcel rather than a  
10 flat and that would be some of the human error that  
11 Mr. Harahush refers to.

12          A     I can't speak to the instructions and the  
13 training that IOCS data collectors go through  
14 regarding those type of pieces, but I can say that  
15 yes, that's why we used the term parcel because in the  
16 common vernacular --

17          MR. MAY: Thank you. That's all I have, Mr.  
18 Chairman.

19          CHAIRMAN OMAS: Thank you, Mr. May.

20                Is there any follow-up cross-examination of  
21 this witness?

22                (No response.)

23          CHAIRMAN OMAS: Are there any questions from  
24 the bench? Commissioner Goldway?

25          COMMISSIONER GOLDWAY: There's been a lot of

1 questions about the quality of the studies that have  
2 been used for your testimony. I just have one follow-  
3 up question. With regard to the standard mail  
4 redefinition study in Library Reference L-33 am I  
5 correct that the sample size for this study was 50  
6 routes or box sections sampled on just one day?

7 THE WITNESS: That is correct.

8 COMMISSIONER GOLDWAY: That seems like a  
9 very small sample size. How did you determine the  
10 sample size? What's the statistical justification for  
11 such a small sample?

12 THE WITNESS: Well, the sampling unit is not  
13 the number of routes. We weren't trying to determine  
14 the number of bound letter pieces handled throughout,  
15 we were interested in the characteristics of nonletter  
16 pieces. So actually we collected a sample of about  
17 1,700 standard mail pieces for the study.

18 It was collected at 50 different routes.  
19 The reason that was is that we were sampling at  
20 destination because at destination you get a good mix  
21 of the mail as it is passed through the system.  
22 You've got all the mail mixed together at the final  
23 delivery point. We believe that the mix of mail, the  
24 heterogeneity of the mail in any one route is similar  
25 to the heterogeneity of mail within the population.

1                   COMMISSIONER GOLDWAY: Why do you believe  
2 that?

3                   THE WITNESS: There's certainly going to be  
4 some variation. Some routes --

5                   COMMISSIONER GOLDWAY: Wouldn't a route that  
6 was primarily business look very different from a  
7 route that was residential? Wouldn't a route that was  
8 in an affluent neighborhood look very different from a  
9 route that was in a poor neighborhood or in a rural  
10 neighborhood? Did you choose these routes to have a  
11 sample across the country?

12                   THE WITNESS: Yeah. We chose the routes  
13 with a sample random population across the entire  
14 United States. The sampling methodology was we first  
15 selected a three digit zone, and then we selected a  
16 five digit zone and then selected two routes within  
17 that zone. Using that methodology we believed that we  
18 would get a good representative --

19                   COMMISSIONER GOLDWAY: Is a random sample.

20                   THE WITNESS: What?

21                   COMMISSIONER GOLDWAY: Random sample.

22                   THE WITNESS: Yeah.

23                   COMMISSIONER GOLDWAY: Fifty you think was  
24 enough?

25                   THE WITNESS: As a statistician you always

1 want more, but we also face resource constraints and  
2 given the resource constraints that we face it was  
3 decided that a sample of 50 routes was the cheapest  
4 way to get the most efficient estimate. Certainly in  
5 the measure of proportion often samples of under 1,000  
6 are used very frequently. Most political surveys  
7 anytime you hear a proportion that is plus or minus  
8 three percent that usually means that it was a random  
9 sample of roughly 1,000 sampling units.

10 When you're measuring proportions a sample  
11 of 1,000 will roughly give you a sampling error of  
12 plus or minus --

13 COMMISSIONER GOLDWAY: So if we did 50  
14 routes what's our sampling margin error?

15 THE WITNESS: Well, it wasn't 50 routes, it  
16 was 1,700 pieces. Sampling units.

17 COMMISSIONER GOLDWAY: Was it every piece in  
18 all 50 routes or did you eliminate some of the pieces  
19 in each route?

20 THE WITNESS: We used the skip factor on  
21 some pieces. We sampled all of the pieces that were  
22 in the parcel hamper, all of the nonletter pieces in  
23 the parcel hamper, and then a skip factor -- one in 10  
24 or one in five -- was used at each individual route  
25 depending on the amount of mail volume that the route

1 had. We adjusted the skip factor so we wouldn't delay  
2 the carriers, so it was I don't believe --

3 COMMISSIONER GOLDWAY: How many of the  
4 observations were excluded? Yesterday we heard as  
5 many as 30 percent of the observations on a study of  
6 windows were excluded. How many observations --

7 THE WITNESS: Thirty percent of the  
8 observations on this study?

9 COMMISSIONER GOLDWAY: No. Yesterday we  
10 heard on another study that as many as 30 percent had  
11 been excluded, so I want to know how many of the  
12 observations that you made in the 1,700 pieces were  
13 excluded?

14 THE WITNESS: I don't have that exact number  
15 for you, but I probably could get it for you.

16 COMMISSIONER GOLDWAY: Could we see that so  
17 we know? If you can do the plus or minus three  
18 percent or 10 percent do you have a sense of what the  
19 sample obtained that you worked with how  
20 representative it is of the overall population?

21 THE WITNESS: Well, I can tell you the  
22 sampling errors. For the proportions of auto flats,  
23 it was on page 14 of my library reference, the 95  
24 percent confidence interval for each of these.

25 COMMISSIONER GOLDWAY: So is that plus or

1 minus five percent when it says 95 percent?

2 THE WITNESS: Yeah. Well, the 95 percent  
3 confidence interval that just means that you're 95  
4 percent sure that the real value lies somewhere in  
5 this interval. Does that make sense?

6 COMMISSIONER GOLDWAY: Yes.

7 THE WITNESS: Okay. Again, I could either  
8 provide this in writing or --

9 COMMISSIONER GOLDWAY: Yes. Why don't you  
10 provide it in writing and if you could give me some of  
11 the confidence level that you have with regard to the  
12 representation of the sample. Remember it's a sample  
13 of the whole population. Is the population the mail  
14 or is it the population recipients of mail?

15 THE WITNESS: It would be the population of  
16 standard nonletter pieces.

17 COMMISSIONER GOLDWAY: Okay. Thank you.  
18 Appreciate that.

19 CHAIRMAN OMAS: Are there any additional  
20 questions for Mr. Loetscher?

21 (No response.)

22 CHAIRMAN OMAS: There being none, Mr.  
23 Reimer, would you like some time with your witness?

24 MR. REIMER: Yes, Mr. Chairman. We would  
25 request 10 minutes, and we anticipate a very light

1 follow-up of redirect.

2 CHAIRMAN OMAS: Very good. We'll take a 10  
3 minute break.

4 (Whereupon, a short recess was taken.)

5 CHAIRMAN OMAS: Mr. Reimer?

6 MR. REIMER: Thank you, Mr. Chairman.

7 REDIRECT EXAMINATION

8 BY MR. REIMER:

9 Q Mr. Loetscher, during your testimony there  
10 was extensive discussion in reference to USPS-LR-L-33  
11 concerning the parcel field and how it was used by the  
12 data collectors. Could you just explain to the  
13 Commission your understanding of what that field was  
14 intended to be used for and how it was used?

15 A Yeah. Let me recharacterize your question  
16 if I could. It was the parcel category in the  
17 preparation field. Now, the preparation field was  
18 included in the survey instrument for the sole purpose  
19 of reminding the data collectors that there is two  
20 categories of how you could measure the length.

21 Either the length was the length of the  
22 longest side or the length was the dimension parallel  
23 to the folder final bounded edge. So that field was  
24 there kind of as a reminder to the data collectors  
25 that if the piece was wrapped, or boxed, or enveloped,

1 basically not folded, then you're to measure the  
2 length of the longest side.

3 If it was folded and then there would have  
4 been the length was the dimension parallel to the  
5 final fold. At no time was that field ever used for  
6 anything other than that. It was simply used to  
7 determine how to measure the length.

8 MR. REIMER: The Postal Service has no  
9 further questions.

10 COMMISSIONER GOLDWAY: This involves a  
11 series of questions. You had mentioned that there  
12 were tools for checking flexibility.

13 THE WITNESS: Uh-huh.

14 COMMISSIONER GOLDWAY: Did you use anything  
15 like this? I was given this by the staff during  
16 break. It's something that's prepared by mailers.

17 THE WITNESS: It looks like one to measure  
18 the arc.

19 COMMISSIONER GOLDWAY: Yes.

20 THE WITNESS: What the Postal Service has  
21 is, I don't know, kind of it's a metal box and it  
22 stands about that high and it's got all of the  
23 markings so two can see. It's got arc on it, it has  
24 the markings for when five inches is -- I would hope  
25 that someone in the Postal Service --

1                   COMMISSIONER GOLDWAY:  And did each one of  
2 your test papers have one of those?

3                   THE WITNESS:  Yeah.

4                   COMMISSIONER GOLDWAY:  Okay.  That's all.  I  
5 just wanted to clarify that.

6                   CHAIRMAN OMAS:  Thank you.

7                   COMMISSIONER GOLDWAY:  That didn't upset  
8 you, did it?

9                   THE WITNESS:  No.

10                  COMMISSIONER GOLDWAY:  Okay.

11                  THE WITNESS:  Not at all.

12                  CHAIRMAN OMAS:  Mr. Loetscher, that  
13 completes your testimony here today.  We appreciate  
14 your appearance and your contribution to the record,  
15 and we thank you again and you are now excused.

16                  THE WITNESS:  Thank you.

17                  (Witness excused.)

18                  CHAIRMAN OMAS:  The hour is exactly 12:00.  
19 I think we will take a one hour lunch break and come  
20 back and we will begin with Ms. Yang.  Thank you.

21                  (Whereupon, at 12:01 p.m., the hearing in  
22 the above-entitled matter was recessed, to reconvene  
23 at 1:00 p.m. this same day, Thursday, August 10,  
24 2006.)

25                  //



1           Q     Do these copies include the errata that were  
2     filed on July 13 and August 8, 2006?

3           A     I believe so, and also I have two minor  
4     changes to make. The first one is on page 4 in line  
5     16. There should be a closing parenthesis added to  
6     MC2004-1. The second minor change is on page 9 in  
7     line 16. The word thorough there should be replaced  
8     by through. I believe these two changes have been  
9     marked in the two copies.

10          Q     With those changes if you were to testify  
11     orally here today would this be your testimony?

12          A     Yes, they will.

13          Q     Are you also prepared to sponsor the  
14     Category II library reference associated with your  
15     testimony as revised July 13 and August 8, 2006?

16          A     Yes.

17          Q     Is that library reference identified on  
18     pages 1 and 2 of your testimony as Library Reference  
19     L-126?

20          A     Yes.

21                 MR. RUBIN: In that case two copies of the  
22     direct testimony of Rachel Tang on behalf of United  
23     States Postal Service will be handed to the reporter,  
24     and I ask that this testimony and the associated  
25     library reference be entered into evidence for this

1 docket.

2 CHAIRMAN OMAS: Is there any objection?

3 (No response.)

4 CHAIRMAN OMAS: Hearing none I will direct  
5 counsel to provide the reporter with two copies of the  
6 corrected direct testimony of Rachel Tang.

7 That testimony is received into evidence.  
8 However as is our practice it will not be transcribed.

9 (The document referred to,  
10 previously identified as  
11 Exhibit No. USPS-T-35, was  
12 received in evidence.)

13 CHAIRMAN OMAS: Ms. Tang do you have  
14 supplemental written testimony to offer this morning  
15 in response to Presiding Officer's Ruling No. 30?

16 THE WITNESS: I have nothing to add to the  
17 response that's already in writing.

18 MR. RUBIN: The Postal Service filed early  
19 this morning a response to Presiding Officer's Ruling  
20 No. 30. I do have copies that I could provide to the  
21 Commissioners if they'd like.

22 CHAIRMAN OMAS: Well, if you would provide  
23 it to the reporter?

24 All right. Thank you very much, Mr. Rubin.

25 //

1 (The document referred to was  
2 marked for identification as  
3 Exhibit No. POR No. 30 and  
4 was received in evidence.)

5 //

6 //

7 //

8 //

9 //

10 //

11 //

12 //

13 //

14 //

15 //

16 //

17 //

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //

Postal Rate Commission  
Submitted 8/10/2006 9:02 am  
Filing ID: 52206

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
TO PRESIDING OFFICER'S RULING NO. 30

Presiding Officer's Ruling No. R2006-1/30 (Ruling) directed Postal Service witness Tang "to be prepared, prior to the commencement of cross-examination, to address in detail the Service's revenue estimation and implementation plan as it pertains to the proposed container charge for Outside County Periodicals." Ruling at 2. To simplify this process, the Postal Service is filing the attached materials.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

---

David H. Rubin  
Attorney

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2986; Fax -6187  
August 10, 2006

**Response to Presiding Officer's Ruling No. R2006-1/30  
Concerning Implementation of Proposed Periodicals Container Rate**

The Postal Service proposes a flat 85-cent container rate to be applied to containers containing Outside-County Periodicals mail. This rate is designed to send an appropriate price signal to encourage better mail preparation and thereby benefit the entire Periodicals community.

**Revenue Estimate**

The container data and revenue estimate are in USPS-LR-L-126, worksheet "Container." The data sources are Tables 3 and 5 in USPS-LR-L-91, Periodicals Mail Characteristics Study. In the "Container" worksheet, the number of containers and the corresponding flats volume have been aggregated into "Pallet" and "Sack and Other". "Sack and Other" includes not just sacks, but all containers other than pallets.

To account for the effect of the minimum 24-piece rule (implemented in May 2006), 65 percent of the sacks which contain fewer than 24 pieces of mail are assumed to be eliminated.

The FY 2005 Billing Determinants were used to slightly adjust the container count. The adjustment factor of 1.012 was applied to reconcile the flats volume in the source data with the total Periodicals volume in the Billing Determinants.

Since only aggregate numbers of sacks, pallets, and flats are provided, for revenue estimate purposes, the volume distribution for Periodicals Outside County subclasses is used to distribute the estimated container revenue.

The resulting revenue projection is as follows:

<b>Container Type</b>	<b>Quantity</b>	<b>Container rate</b>		<b>Total revenue</b>
Pallets	3,865,720	85 cents	=	3,285,862
Sacks and Other	47,097,975	85 cents	=	40,033,279
<b>Total</b>	<b>50,963,695</b>	<b>85 cents</b>	<b>=</b>	<b>43,319,140</b>

Although this revenue projection cannot be delineated to the same degree as the implementation categories (in the following table), it is a reasonable estimate since pallets and sacks cover almost all of the volume, and the "Sacks and Other" category includes containers other than pallets and sacks. Also, the revenue estimate accounts for only 1.8 percent of the total Outside County revenue (\$2,394,326,176 from LR-L-126, Workpaper "FY2008 Summary").

#### **Application of Container Rate**

The Postal Service understands the need for the Commission to know how the Service plans to apply the container rate. As mentioned in the Order, the specific regulations will be published in a Federal Register notice. That notice is expected next month, but the following grid summarizes the proposed regulations:

	<b>Outside County mail preparation</b>	<b>Container rate application</b>
1.	Sacks	Per sack
2.	Sacks on pallets	Per sack
3.	Bundles/trays/tubs on pallets	Per pallet
4.	No containers, DDU entry, as specified by the Postal Service	One rate application per 5-digit scheme served by the DDU
5.	Other	Per unit as indicated under standardized documentation

Lines 1-3 cover 99.7% of Periodicals volume. Line 4 covers a portion of the remaining volume. (This form of preparation is permitted only in limited circumstances such as when the postal facility cannot accommodate pallets. And in these situations additional work on the part of the mailer is required. See DMM 707.23.4.2). The application of the container rate in this situation is intended to mirror the lowest price that could be obtained if this type of DDU mailing was containerized. Line 5 is intended to address those situations that do not involve sacks or pallets and are not covered by line 4.

1                   CHAIRMAN OMAS: Let us now continue with  
2 written cross-examination.

3                   Ms. Tang, have you had an opportunity to  
4 examine the packet of designated written cross-  
5 examination that was made available to you in this  
6 room this morning?

7                   THE WITNESS: Yes, I have.

8                   CHAIRMAN OMAS: If the questions contained  
9 in that packet were asked of you orally today would  
10 your answers be the same as those you supplied to the  
11 Commission previously provided to us in writing?

12                  THE WITNESS: I do have one change to make  
13 which is my response to McGraw-Hill No. 10, Part C.  
14 The second line I would like to insert the word deny,  
15 so it reads at the same time the Postal Service is not  
16 proposing to deny these counts to those that are  
17 already reducing the Postal Service costs by drop  
18 shipping.

19                  CHAIRMAN OMAS: Thank you. Are there any  
20 additional corrections or additions you would like to  
21 make to those answers?

22                  THE WITNESS: No, there is not.

23                  CHAIRMAN OMAS: Counsel, would you please  
24 provide two copies of the corrected designated written  
25 cross-examination of Witness Tang to the reporter.

1 That material is received into evidence and it is to  
2 be transcribed in the record.

3 (The document referred to was  
4 marked for identification as  
5 Exhibit No. USPS-T-35 and was  
6 received in evidence.)

7 //  
8 //  
9 //  
10 //  
11 //  
12 //  
13 //  
14 //  
15 //  
16 //  
17 //  
18 //  
19 //  
20 //  
21 //  
22 //  
23 //  
24 //  
25 //

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

*Includes Aug. 9 versions  
of MPA 13, 17.  
Includes ~~and~~ MPA 27-28, MH 6-15*

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS RACHEL TANG  
(USPS-T-35)

<u>Party</u>	<u>Interrogatories</u>
Alliance of Nonprofit Mailers	MPA/USPS-T35-1, 2a-d, f, 3-20, 22-26
American Business Media	ABM/USPS-T35-1-9 MPA/USPS-T35-4, 7, 13, 17
Magazine Publishers of America	MPA/USPS-T35-1, 2a-d, f, 3-20, 22-26
McGraw-Hill Companies, Inc., The	ABM/USPS-T35-1-19 MH/USPS-T35-1-5, 16-17 MPA/USPS-T35-3-7, 13 NNA/USPS-T35-13, 19, 25 PRC/USPS-POIR No.2 - Q7 - 9, POIR No.6 - Q1 redirected to T35
National Newspaper Association	MH/USPS-T35-4 MPA/USPS-T35-1 NNA/USPS-T35-1-25
Pitney Bowes Inc.	PB/USPS-T35-1-2

PartyInterrogatories

Postal Rate Commission

ABM/USPS-T35-1-19

MH/USPS-T35-1-5, 16-17

MPA/USPS-T35-1, 2a-d, f, 3-20, 22, 25-26

NNA/USPS-T35-1-25

PB/USPS-T35-1-2

PRC/USPS-POIR No.1 - Q1, 10, 2 - 9, POIR

No.2 - Q10, 7 - 9, POIR No.3 - Q5 - 6, POIR

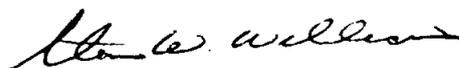
No.6 - Q1-2, 6, POIR No.8 - Q1a, 1b, 2 redirected  
to T35

TW/USPS-T35-1-10

Time Warner Inc.

TW/USPS-T35-1-10

Respectfully submitted,

Steven W. Williams  
Secretary



Interrogatory

MPA/USPS-T35-3

MPA/USPS-T35-4

MPA/USPS-T35-5

MPA/USPS-T35-6

MPA/USPS-T35-7

MPA/USPS-T35-8

MPA/USPS-T35-9

MPA/USPS-T35-10

MPA/USPS-T35-11

MPA/USPS-T35-12

MPA/USPS-T35-13

MPA/USPS-T35-14

MPA/USPS-T35-15

MPA/USPS-T35-16

MPA/USPS-T35-17

MPA/USPS-T35-18

MPA/USPS-T35-19

MPA/USPS-T35-20

MPA/USPS-T35-22

MPA/USPS-T35-23

MPA/USPS-T35-24

MPA/USPS-T35-25

MPA/USPS-T35-26

NNA/USPS-T35-1

NNA/USPS-T35-2

NNA/USPS-T35-3

NNA/USPS-T35-4

NNA/USPS-T35-5

NNA/USPS-T35-6

NNA/USPS-T35-7

NNA/USPS-T35-8

NNA/USPS-T35-9

Designating PartiesANM, McGraw-Hill, MPA,  
PRCABM, ANM, McGraw-Hill,  
MPA, PRCANM, McGraw-Hill, MPA,  
PRCANM, McGraw-Hill, MPA,  
PRCABM, ANM, McGraw-Hill,  
MPA, PRC

ANM, MPA, PRC

ABM, ANM, McGraw-Hill,  
MPA, PRC

ANM, MPA, PRC

ANM, MPA, PRC

ANM, MPA, PRC

ABM, ANM, MPA, PRC

ANM, MPA

ANM, MPA

ANM, MPA, PRC

ANM, MPA, PRC

NNA, PRC

Interrogatory

NNA/USPS-T35-10  
 NNA/USPS-T35-11  
 NNA/USPS-T35-12  
 NNA/USPS-T35-13  
 NNA/USPS-T35-14  
 NNA/USPS-T35-15  
 NNA/USPS-T35-16  
 NNA/USPS-T35-17  
 NNA/USPS-T35-18  
 NNA/USPS-T35-19  
 NNA/USPS-T35-20  
 NNA/USPS-T35-21  
 NNA/USPS-T35-22  
 NNA/USPS-T35-23  
 NNA/USPS-T35-24  
 NNA/USPS-T35-25  
 PB/USPS-T35-1  
 PB/USPS-T35-2  
 PRC/USPS-POIR No.1 - Q1 redirected to T35  
 PRC/USPS-POIR No.1 - Q10 redirected to T35  
 PRC/USPS-POIR No.1 - Q2 redirected to T35  
 PRC/USPS-POIR No.1 - Q3 redirected to T35  
 PRC/USPS-POIR No.1 - Q4 redirected to T35  
 PRC/USPS-POIR No.1 - Q5 redirected to T35  
 PRC/USPS-POIR No.1 - Q6 redirected to T35  
 PRC/USPS-POIR No.1 - Q7 redirected to T35  
 PRC/USPS-POIR No.1 - Q8 redirected to T35  
 PRC/USPS-POIR No.1 - Q9 redirected to T35  
 PRC/USPS-POIR No.2 - Q10 redirected to T35  
 PRC/USPS-POIR No.2 - Q7 redirected to T35  
 PRC/USPS-POIR No.2 - Q8 redirected to T35  
 PRC/USPS-POIR No.2 - Q9 redirected to T35  
 PRC/USPS-POIR No.3 - Q5 redirected to T35  
 PRC/USPS-POIR No.3 - Q6 redirected to T35  
 PRC/USPS-POIR No.6 - Q1 redirected to T35  
 PRC/USPS-POIR No.6 - Q2 redirected to T35

Designating Parties

NNA, PRC  
 NNA, PRC  
 NNA, PRC  
 McGraw-Hill, NNA, PRC  
 NNA, PRC  
 NNA, PRC  
 NNA, PRC  
 NNA, PRC  
 NNA, PRC  
 McGraw-Hill, NNA, PRC  
 NNA, PRC  
 NNA, PRC  
 NNA, PRC  
 NNA, PRC  
 NNA, PRC  
 McGraw-Hill, NNA, PRC  
 Pitney Bowes, PRC  
 Pitney Bowes, PRC  
 McGraw-Hill, PRC  
 McGraw-Hill, PRC  
 McGraw-Hill, PRC  
 PRC  
 PRC  
 McGraw-Hill, PRC  
 PRC



RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-1.** (a) Please confirm that, around the time that this case was initiated, the Postal Service prepared and distributed a chart captioned "Examples of Common Price Adjustments" that listed certain types of mail with both current and proposed postage costs on a cents per piece basis. If you cannot confirm, please explain why.

(b) Please confirm that the chart referred to in part (a) above included current and proposed cents per piece postage costs for a "weekly news magazine" weighing 6 ounces with 40% advertising, carrier route presort, SCF entry, on a 2,000 piece pallet amounting to 17.9 cents under current rates and 20 cents at the proposed rates, for an increase of 2.1 cents per copy. If you cannot confirm, please explain why.

(c) Please provide an estimate of the percentage of pieces in a main file mailing of that "weekly news magazine" that can in fact achieve carrier route sortation and SCF entry.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) The mailing referred to in part (b) is purely a hypothetical example. In the universe of Periodicals publications, it is my understanding that some weekly publications might have characteristics similar to the hypothetical example; others will be vastly different. The proportion of pieces on a 2,000 piece SCF pallet that qualify for carrier route rates depends on the size of the SCF service territory, the number of delivery points in each route, and the distribution of subscribers across routes. The proportion of pieces qualifying for carrier route rates on this pallet could be 100 percent in the case, if subscribers are concentrated in a few routes, or 0 percent, if subscribers are distributed equally across many routes.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-2.** (a) Please confirm that, around the time that this case was initiated, the Postal Service prepared and distributed a chart captioned "Examples of Common Price Adjustments" that listed certain types of mail with both current and proposed postage costs on a cents per piece basis. If you cannot confirm, please explain why.

(b) Please confirm that the chart referred to in part (a) above included current and proposed cents per piece postage costs for an "Opinion journal" weighing 5 ounces with 10% advertising, 3-digit presort, average zone 4 in 50-piece sacks amounting to 29.5 cents under current rates and 34 cents at the proposed rates, for an increase of 4.5 cents per copy, without any change in mailing practices. If you cannot confirm, please explain why.

(c) What size mailing, in number of pieces, is contemplated for this "Opinion journal" that can achieve only a 3-digit presort?

**RESPONSE:**

(a) Confirmed.

(b) Confirmed that the chart provides the current and proposed postage for a piece with the characteristics specified in the question.

(c) The piece referred to in part (b) is purely a hypothetical example. There was no particular mailing quantity contemplated. The example merely describes the characteristics of a particular piece in order to illustrate a price change. The characteristics of this segment of a mailing is consistent with a mailing of 50 pieces where all subscribers are located in one 3-Digit zone, but it also consistent with a 1,000,000 piece mailing where a particular region has very few subscribers.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-3.** (a) Please confirm that, around the time that this case was initiated, the Postal Service prepared and distributed a chart captioned "Examples of Common Price Adjustments" that listed certain types of mail with both current and proposed postage costs on a cents per piece basis. If you cannot confirm, please explain why.

(b) Please confirm that the chart referred to in part (a) above included current and proposed cents per piece postage costs for a "local newspaper" weighing 4 ounces, general entry, carrier route presort amounting to 8.5 cents per copy at present rates and 10.5 cents per copy at proposed rates, for an increase of 2 cents per copy, without any change in mailing practices. If you cannot confirm, please explain why.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed that the chart provides the current and proposed postage for a piece with the characteristics specified in the question.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-4.** (a) Please confirm that, around the time that this case was initiated, the Postal Service prepared and distributed a chart captioned "Shaping a More Efficient Future" that listed certain types of mail with the current and proposed postage charges in cents per piece as well as "potential modifications" to mailing practices and proposed postage assuming that those practices are implemented. If you cannot confirm, please explain why.

(b) Please confirm that the chart referred to in part (a) above included as the only example of Periodicals an 8-ounce publication, 5-digit auto, and mailed in sacks, with 40 pieces per sack. If you cannot confirm, please explain why.

(c) What advertising percentage was assumed for the mailpiece that is identified in part (b)?

(d) What size mailing, in number of pieces, is contemplated for this publication?

(e) Please confirm that the mailing characteristics of the Periodical example on the chart identified in part (a) are intended to be typical of specialized publications, such as the business-to-business publications of American Business Media members. If you cannot confirm, please explain why and identify the type of publication, if any, of which these mailing characteristics are considered to be typical.

(f) Please confirm that the postage per piece shown on the chart identified in part (a) for the Periodical identified in part (b) amounts to 33.4 cents per piece at present rates and 38.1 cents per piece at the proposed rates, for an increased of 4.7 cents per copy, without a change in mailing practices. If you cannot confirm, please explain why.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed that the chart provides the current and proposed postage for a piece with the characteristics specified in the question

(c) 40 percent advertising weight.

(d) The mailing referred to in part (b) is purely a hypothetical example. The characteristics of this segment of a mailing is consistent with a mailing that contains 40 pieces for subscribers located in one 5-Digit zone, but is also consistent with a 1,000,000 piece mailing where a particular region has very few subscribers. The example does not include any estimate or contemplation of the mailing's total volume.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

ABM/USPS-T35-4, Page 2 of 2

- (e) The mailing characteristics of the periodical example on the chart identified in part (a) is purely a hypothetical example. Please see my response to ABM/USPS-T35-1(a).
- (f) Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA**

**ABM/USPS-T35-5.** The chart referenced in ABM/USPS-T35-4 lists as one potential modification for the periodical identified in that interrogatory "Co-palletize with another magazine (1639 per pallet)." With respect to this potential change in mailing practice:

- (a) Is it the Postal Service's position that pallets averaging 1,639 pieces can be obtained by co-palletizing the publication in the example with "another" publication, or would it take co-palletizing of more than two publications?
- (b) Please provide the Postal Service's best estimate of the cost in cents per copy to the mailer of the example publication of participation in a co-palletization program, such that the mailer is able to obtain average pallet size of around 1,600 pieces.
- (c) Please confirm that the "proposed price with modification" of 36.1 cents per copy, for a mailer that co-palletizes but does not drop ship, does not include the cost to the mailer of participation in a co-palletization program. If you cannot confirm, please explain why.

**RESPONSE:**

- (a) The chart captioned "Shaping a More Efficient Future" provides purely hypothetical examples of ways Postal Service customers can change their mailing practices and reduce their postage cost while reducing the cost to the Postal Service. It is not impossible to imagine that there are two publications that, when co-palletized, could produce pallets averaging 1,639 pieces. It is also possible that a group of publications could produce pallets averaging 1,639 pieces by co-palletizing more than two publications. It is my understanding that the sole point of the chart was to show that by changing mail preparation mailers could reduce postage.
- (b) I cannot provide any estimate of the cost to mailers. Rate design is based on Postal Service costs. It is my understanding that the cost to participate in a co-palletization program varies by mailer, and that individual mailers will weigh this cost against the benefit of lower postage.
- (c) Confirmed. See my response to part (b).

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-6.** The chart referenced in ABM/USPS-T35-4 lists as one potential modification for the periodical identified in that interrogatory "As above [referring to co-palletization], but enter at DADC." With respect to this potential change in mailing practice:

- (a) Is it the Postal Service's position that after co-palletization and efficient drop shipping, the example publication can obtain DADC entry for all or nearly all of its copies? If so, please provide the basis for that position. If not, please estimate the percentage of the copies mailed that can achieve DADC entry.
- (b) Please provide the Postal Service's best estimate of the cost in cents per copy to the mailer of the example publication of drop shipping to a DADC.
- (c) Please confirm that the "proposed price with modification" of 31.2 cents per copy for a mailer that both co-palletizes and drop ships does not include the cost to the mailer of participation in a co-palletization program and drop shipping. If you cannot confirm, please explain why.

**RESPONSE:**

- (a) This is purely a hypothetical example of the postage paid for an individual Periodicals piece if it is co-palletized and dropshipped to the DADC. There was no assumption made regarding how many copies can obtain DADC entry. The sole purpose of this example was to show that the prices include features that could reduce postage, and that the proposed rates provide mailers a menu of options to choose from.
- (b) I cannot provide any estimate of the cost to mailers. Rate design is based on Postal Service costs.
- (c) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-7.** Please confirm that, based upon charts distributed in May, 2006, by the Postal Service, the mailer of a typical news weekly will pay postage of 20 cents per copy at the proposed rates as long as it continues to drop ship as it does now but without the need to incur any co-palletization (or co-mailing) costs for its main file mailing. If you cannot confirm, please explain why.

**RESPONSE:**

It is my understanding that the sole point of this example was to show a typical price change. No assumptions were made regarding the need to change mail preparation or the need to co-palletize or co-mail.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-8.** Please confirm that, based upon charts distributed in May, 2006, by the Postal Service, the mailer of a typical 8-ounce, 5-digit presort, sacked publication will pay postage of 31.2 cents per copy at the proposed rates, but only if it also pays the costs of a co-palletization (or co-mailing) program and the costs of drop shipping, and will pay 38.1 cents per copy if it incurs neither of these costs. If you cannot confirm, please explain why.

**RESPONSE:**

Please see my response to ABM/USPS-T35-7.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-9.** Your response to ABM/USPS-T35-1(c) did not provide a direct response to the question, asserting that the mailing in the example is a "hypothetical."

(a) Are the per piece postage costs reflected in that interrogatory and the Postal Service chart to which it refers the hypothetical costs just for that portion of the hypothetical publication's mailed distribution that happens to be sorted to carrier route, SCF entry and on a 2,000 piece pallet?

(b) If not, please explain why you are unable to estimate the percentage of a "weekly news magazine" total mailed distribution that meets those criteria.

(c) Approximately how many "weekly news magazines" are there in the mail that mail a significant portion of their copies with carrier route presort, SCF entry and on pallets?

**RESPONSE:**

(a-c) In the universe of Periodicals publications, there is a wide variety of combinations of piece weight, entry zone, percentage of editorial content, shape, presort level, and other characteristics. Even within one mailing, many combinations may exist. The characteristics that are commonly associated with the illustrated publications were selected for the examples. For instance, the high editorial content example was described as an opinion journal. No particular publication was used to derive these combinations of characteristics.

I cannot quantify "how many 'weekly news magazines' are there in the mail that mail a significant portion of their copies" with the specific characteristics. Again, the examples in question were not meant to be representative or typical of a specific publication. These examples were presented for the sole purpose of illustrating the postage one might see for a hypothetical piece.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-10.** Your response to ABM/USPS-T35-2(c) states that "no particular mailing quantity" was contemplated and that the mailing characteristics contained in the letter and in the Postal Service's chart to which it refers can be consistent with a mailing of 50 pieces or a portion of a mailing of 1,000,000 pieces.

(a) Why does the example used by the Postal Service refer to an "opinion journal" in its distributed material?

(b) Was this reference intended to refer to a generic type of publication?

(c) Are the mailing characteristics in the Postal Service example typical of an "opinion journal"?

(d) On what basis did you determine that these mailing characteristics are in any way typical of an "opinion journal"?

**RESPONSE:**

(a-b) Since the example was to show a low advertising publication, the term "opinion journal" was used for illustrative purposes.

(c-d) Please see my response to ABM/USPS-T35-9(a-c).

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-11.** Interrogatory ABM/USPS-T35-4 and your response address a hypothetical periodical that weighs 8 ounces, is mailed as 5-digit automation and is mailed in 40-piece sacks.

- (a) Why did the Postal Service select these particular characteristics to demonstrate the effects of co-palletization and drop shipping?
- (b) Is there a particular source for these mailing characteristics?
- (c) If so, what is that source?
- (d) Are these mailing characteristics *typical for a substantial portion of a publication that mails 1,000,000 pieces, as discussed in your response to part (d)?*
- (e) Does the Postal Service believe that the characteristics addressed in this example are *typical of a substantial portion of the mailing of any particular type of publication? If so, what type or types?*

**RESPONSE:**

Please see my response to ABM/USPS-T35-9(a-c).

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-12.** Please refer to your response to ABM/USPS-T35-5(a). You state that "it is not impossible to imagine that there are two publications that, when co-palletized, could produce pallets averaging 1,639 pieces." Forgetting about what's possible and imagination, isn't it far more likely that a co-palletization program achieving a pallet size of around 1,600 pieces will involve co-palletizing more than two publications together?

**RESPONSE:**

Yes, it is likely that a co-palletization program achieving a pallet size of around 1,600 pieces will involve co-palletizing more than two publications.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-13.** Please refer to your response to ABM/USPS-T35-5(b). You state that you cannot provide "any estimate" of the cost to mailers of participation in a co-palletization program.

(a) Are you suggesting—or stating—that the Postal Service has never inquired about or received information about the costs to mailers, that is, to the publishers paying the bill, of co-palletization?

(b) Is it true that the Postal Service has no idea whether the costs of participating in a co-palletization program are much less than, slightly less than, the same as, slightly more than or much more than the postage savings produced by co-palletization?

(c) If the response to part (b) is anything other than an unqualified "yes," meaning that it is true, please provide all data in the Postal Service's possession related to the costs and/or charges to mailers of participating in a co-palletization program.

**RESPONSE:**

(a-c) The Postal Service has been working with the Periodicals mailers to mitigate the impact of rate increases and encourage efficiency. It is my understating that internal operations vary from mailer to mailer and therefore their costs vary, too. It is my understanding that the costs to mailers have been mentioned or discussed on various occasions. However, the Postal Service does not possess or maintain data related to the costs nor the charges to mailers of participating in a co-palletization program. The Postal Service is aware that there is a cost to participate, and this has been taken into consideration in general in our rate design. Mailers could evaluate their options and choose the option that lowers the combined cost of postage and mail preparation. It is probably safe to assume that the current co-palletization participants have evaluated their options and decided to take advantage of the incentives.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-14.** With respect to co-palletization, (a) Is it the Postal Service's position that all periodicals can be efficiently co-palletized?

(b) If your response to part (a) is in affirmative, please provide the source of the information leading to that conclusion.

(c) If the response to part (a) is negative, please identify the types of publications that cannot reasonably be co-palletized.

**RESPONSE:**

(a) No, not all periodicals will find the price advantages outweigh the costs.

(b) Not applicable.

(c) The prices are designed to encourage co-palletization if it makes sense from a cost, production, and service perspective. Presumably, those publications that choose not to co-palletize have decided that, on balance, participation does not make sense for them. I have not attempted to identify particular types of publications that would, on balance, decide not to participate.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-15.** Your response to ABM/USPS-T35-5(c) states that "[r]ate design is based on Postal Service costs," presumably as the reason that you are unable to provide any estimate of the costs of co-palletizing.

(a) Please review the following list of possible rate considerations and identify those that are or should be taken into consideration by the Postal Service in designing rates:

- (1) the impact of a rate increase on mailers;
- (2) the "lowest combined cost" to mailers, considering both the postage costs of mailing and the costs of preparing the material for mailing; and
- (3) the extent to which a discount provides an adequate incentive to mailers to engage in work sharing activities that are recognized in rate design.

(b) For each consideration so identified, please state whether information about the cost of participation in a co-palletization program would be relevant.

**RESPONSE:**

My response simply means that since rate design is based on Postal Service costs, it is not required that I attempt to quantify mailers' specific costs as they pertain to co-palletization.

(a) All of these are taken into consideration in rate design. Pricing is intended to send signals regarding mail preparation with the goal of achieving lowest combined cost, if the preparation makes sense. Please see my response to ABM/USPS-T35-14(c).

(b) Information such as that described would be interesting, but not required. The range of rate increases can be estimated by looking at the proposed price changes. The goal of lowest combined cost is considered by virtue of offering pricing signals. And it is up to the individual mailers to decide if these pricing incentives are adequate to offset the overall cost of taking advantage of them.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-16.** Your response to ABM/USPS-T35-6(a) states that the example of savings from co-palletizing and drop shipping to a DADC is "purely hypothetical." (a) In the real world, is it reasonable to assume that periodicals with circulations lacking the density to build single-title pallets will be able to co-palletize and drop ship 100% of their copies to a DADC? (b) If not, what range of percentages would you deem to be reasonable or representative?

**RESPONSE:**

(a) In the real world, it is reasonable to assume that not all the periodicals with circulations lacking the density to build single-title pallets will be able to co-palletize and dropship 100 percent of their copies to a DADC. Again, that is purely an example to illustrate the postage paid for an individual Periodicals piece if it is co-palletized and dropshipped to the DADC. It is my understanding that there was no assumption made regarding how many copies can obtain DADC entry.

(b) According to the data reports the Postal Service collects from the mailers and files with the Postal Rate Commission, among the publications participating in the co-palletization experiment (Docket No. MC2002-3), by the end of March 2006, over 64 percent of the co-palletized Periodicals pieces were dropshipped to the DADC and over 25 percent to the DSCF.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA

**ABM/USPS-T35-17.** Please refer to your response to ABM/USPS-T35-6(b). You state that you cannot provide “any estimate” of the cost to mailers of drop shipping pallets to a DADC.

(a) Are you suggesting—or stating—that the Postal Service has never inquired about or received information about the costs to mailers, that is, to the publishers paying the bill, of drop shipping?

(b) Is it true that the Postal Service has no idea whether the costs of drop shipping are much less than, slightly less than, the same as, slightly more than or much more than the postage savings produced by drop shipping?

(c) If the response to part (b) is anything other than an unqualified “yes,” meaning that it is true, please provide all data in the Postal Service’s possession related to the costs and/or charges to mailers of drop shipping.

**RESPONSE:**

(a) No. Interaction with publishers has obviously touched on the fact that there is a cost to participate in a dropship program.

(b) The fact that some participate in dropship indicates that the costs must, at times, be less than the postage savings. The fact that some do not participate indicates that the opposite is sometimes true.

(c) The Postal Service has no data regarding the actual costs of dropshipping incurred by mailers.

**RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA**

**ABM/USPS-T35-18.** Please refer to your response to ABM/USPS-T35-7, which asked whether, in the Postal Service's example of a newsweekly's postage increasing from 17.9 cents today to twenty cents at the proposed rates, the new rate is based upon no change in drop shipping and no need to co-palletize or co-mail. You state that "no assumptions were made regarding the need to change mail preparation or the need to co-mail." Please describe in detail how the 17.9 cents and the 20 cents figures were calculated, and show the calculations.

**RESPONSE:**

Please see the following table.

Example: 6-ounce, 40% advertising, carrier route, SCF on 2000-piece pallet

Piece Weight = 6oz/16oz = 0.375 Lb

0.375 Lb per Piece \* 2000 pieces = 750 Lbs

<b>Pound Rate</b>	Advertising Pounds	Editorial Pounds	Total Pounds	Adv. Rates Current	Ed. Rates Current	Adv. Rates Proposed	Ed. Rates Proposed	<b>Current Postage</b>	<b>Proposed Postage</b>
SCF	40% 300	60% 450	750	\$ 0.214	\$ 0.203	\$ 0.230	\$ 0.193	\$ 155.55	\$ 155.85
<b>Piece Rate</b>			Total Pieces	Current Rate	Proposed Rate			Current Postage	Proposed Postage
CR Basic			2000	\$ 0.172	\$ 0.186			\$ 344.00	\$ 372.00
<b>Discounts</b>		Editorial	Total Pieces	Current Rate	Proposed Rate			Current Postage	Proposed Postage
% Editorial		60%	2000	\$ (0.078)	\$ (0.089)			\$ (93.60)	\$ (106.80)
DSCF Dropship				\$ (0.008)	\$ (0.011)			\$ (16.00)	\$ (22.00)
DSTN Pallet				\$ (0.016)	0			\$ (32.00)	\$ -
<b>Container Rate</b>			Container		Proposed Rate				Proposed Postage
			1		\$ 0.850				0.85
<b>Total Postage</b>								\$ 357.95	\$ 399.90
<b>Per Piece Postage</b>								\$ 0.179	\$ 0.200

**RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA**

**ABM/USPS-T35-19.** American Business Media's First Interrogatories contained the following question:

**ABM/USPS-T35-8.** Please confirm that, based upon charts distributed in May, 2006, by the Postal Service, the mailer of a typical 8-ounce, 5-digit presort, sacked publication will pay postage of 31.2 cents per copy at the proposed rates, but only if it also pays the costs of a co-palletization (or co-mailing) program and the costs of drop shipping, and will pay 38.1 cents per copy if it incurs neither of these costs. If you cannot confirm, please explain why.

Your response merely refers to your response to ABM/USPS-T35-7. We do not believe that this answer is at all responsive. Please answer the question as asked, and, in addition, please describe in detail how the 31.2 cents and 38.1 cents figures in the Postal Service's examples were calculated, and show the calculations.

**RESPONSE:**

Confirmed that there is some cost to participate in a co-palletization program. The mailer in question will have to decide if there is a net benefit to co-palletize. The following two tables show how the 31.2 cents and 38.1 cents figures in the examples were calculated.

Example: 8-oz, 40% advertising, 5-Digit Auto Flats, DADC on 1639-pc pallet  
 Piece Weight = 8oz/16oz = 0.5 Lb  
 0.5 Lb per Piece \* 1639 pieces = 819.50 Lbs

<b>Pound Rate</b>	Advertising Pounds	Editorial Pounds	Total Pounds	Adv. Rates Proposed	Ed. Rates Proposed	<b>Proposed Postage</b>
ADC	40% 327.80	60% 491.70	819.50	\$ 0.251	\$ 0.210	\$ 185.53
<b>Piece Rate</b>			Total Pieces	Proposed Rate		Proposed Postage
5-D Auto Flats			1639	\$ 0.255		\$ 417.95
<b>Discounts</b>		Editorial	Total Pieces	Proposed Rate		Proposed Postage
% Editorial		60%	1639	(0.089)		\$ (87.52)
DADC Dropship				(0.003)		\$ (4.92)
DSTN Pallet				0		\$ -
<b>Container Rate</b>			Container	Proposed Rate		Proposed Postage
			1	\$ 0.850		0.85
<b>Total Postage</b>						\$ 511.89
<b>Per Piece Postage</b>						\$ 0.312

**RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF AMERICAN BUSINESS MEDIA**

Example: 8-oz, 40% advertising, 5-Digit Auto Flats, Zone 5 in 40-pc sack

Piece Weight = 8oz/16oz = 0.5 Lb

0.5 Lb per Piece \* 40 pieces = 20 Lbs

<b>Pound Rate</b>	<b>Advertising Pounds</b>	<b>Editorial Pounds</b>	<b>Total Pounds</b>	<b>Adv. Rates Proposed</b>	<b>Ed. Rates Proposed</b>	<b>Proposed Postage</b>
Zone 5	40%	60%	20.00	\$ 0.444	\$ 0.232	\$ 6.34
<b>Piece Rate</b>			<b>Total Pieces</b>	<b>Proposed Rate</b>		<b>Proposed Postage</b>
5-D Auto Flats			40	\$ 0.255		\$ 10.20
<b>Discounts</b>		<b>Editorial</b>	<b>Total Pieces</b>	<b>Proposed Rate</b>		<b>Proposed Postage</b>
% Editorial		60%	40	(0.089)		\$ (2.14)
<b>Container Rate</b>			<b>Container</b>	<b>Proposed Rate</b>		<b>Proposed Postage</b>
			1	\$ 0.850		0.85
<b>Total Postage</b>						\$ 15.25
<b>Per Piece Postage</b>						\$ 0.381

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-1.** With respect to the container rate addressed at pp. 4-6 of your testimony and in USPS-LR-L-126, worksheet "Container":

- (a) Please explain fully how you arrived at a proposed container rate of 85¢ per container, as opposed to some other amount, and provide all calculations and references to any relevant portions of the record in this proceeding.
- (b) Given the estimate that an average pallet contains 1641.64 pieces, please confirm that on average, each palletized piece would effectively incur \$0.00052 (0.05176¢) as a result of the proposed container charge. If you do not confirm, please explain fully.
- (c) In worksheet "Container", please reconcile the 71,188, 563 figure in cell B7 with the 72,056,006 figure in cell B11.
- (d) In worksheet "Container", please explain fully the derivation of the 50,963,695 figure in cell H7.

**RESPONSE:**

- (a) The 85-cent container rate was developed to send an appropriate price signal to encourage better mail preparation and improve Periodicals efficiency, without imposing an overwhelming burden on those smaller publications which may not have the volume or density to fully take advantage of the price incentives. However, smaller publications would still have an incentive to use fewer containers. The revenue generated from the 85-cent container rate allows other rate elements to be lower. The container cost analysis in USPS-LR-L-85, Table 1 (specifically, the unit costs of \$1.1592 per sack, and \$19.5660 per pallet) was used as a reference but not as the primary basis for the 85-cent container rate.
- (b) Confirmed that 85 cents, divided by 1641.64 pieces, yields a result of \$0.00052 per piece (0.05178¢). While some might view that as an additional charge and compare it to the existing "pallet discount", that would be incorrect. As noted above, the container rate also serves to reduce the proposed charges for other components in

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-1, Page 2 of 2

Periodicals rate design. The appropriate comparison is to examine the absolute differences in postage for the same mailing, when it is sacked versus palletized.

(c) In worksheet "Container", the 71,188,563 figure in cell B7 is the total count of containers with Outside-County flats. To account for the letter and parcel shaped Periodicals pieces, I multiplied the number of flats containers, which is 71,188,563, by the ratio of total Outside-County volume (8,307,329,578 in cell D13) to flats volume (8,207,322,096 in cell D7). This is how the 72,056,006 figure in cell B11 is derived.

(d) Based on the assumption that about 65 percent of the "skin" sacks (cell F6) would be eliminated as a result of the minimum 24 pieces per sack rule, the remaining number of sacks is calculated in cell H6 by subtracting the eliminated skin sacks from the total number of sacks that contains flats (cell B6). The 50,963,695 figure in cell H7 is derived by applying the ratio explained above in (c) to the sum of the remaining flats containers (pallets in cell B5 + sacks in cell H6).

**RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.**

**MH/USPS-T35-2.** With respect to the statements at page 6 of your testimony that the proposed container rate “would encourage customers to move toward more efficient containerization, such as from sacks to pallets”, and “would encourage better use of existing containers” (i.e., fuller, and therefore fewer, sacks and pallets):

(a) Please confirm that the proposed container rate is designed to foster a substantial reduction in the number of containers used for Outside-County Periodicals mail, and a corresponding reduction in costs incurred by the Postal Service, above and beyond the elimination of 65% of “skin” sacks projected to result from the minimum 24 pieces per sack rule that became effective for Periodicals mail on May 11, 2006. If you do not confirm, please explain fully.

(b) Please confirm that apart from the elimination of 65% of skin sacks, you nevertheless project in worksheet “Container” that the same number of containers (50,963,695) will be used for Outside-County Periodicals mail in TY 2008 as was used for Outside-County Periodicals mail in FY 2005 (even though the TYAR volume of Outside-County Periodicals mail forecast for TY 2008 is 210,102,987 pieces less than the corresponding FY 2005 volume). If you do not confirm, please explain fully.

(c) Please confirm that you likewise project in worksheet “Container” and your TYAR worksheets for Outside-County Periodicals mail that (i) the number of pallets used for Outside-County Periodicals mail in TY 2008 will be the same as in FY 2005 and (ii) pallets for Outside-County Periodicals mail will average the same number of pieces in TY 2008 as in FY 2005. If you do not confirm, please explain fully.

(d) Please provide your best estimate of the degree of impact (or range of impact) that the proposed container charge would likely have through TY 2008 on (i) the number of Outside-County Periodicals sacks and pallets, respectively, and (ii) the average number of pieces per pallet and per sack, respectively.

(e) Assuming that the proposed container rate in fact fosters a substantial reduction in the number of containers used for Outside-County Periodicals mail, please explain fully whether and to what extent it is likely that the corresponding reduction in costs incurred by the Postal Service may substantially exceed the resultant reduction in container charge revenues, resulting in a commensurately higher cost coverage for Outside-County Periodicals mail.

(f) Please provide your best estimate of the reduction in costs to the Postal Service that would likely be fostered by the proposed container charge through TY 2008.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-2, Page 2 of 3

**RESPONSE:**

- (a) Confirmed that the pricing is intended to encourage more efficient use of containers beyond that which may result from the 24-piece sack rule.
- (b) Confirmed that, apart from the elimination of 65 percent of skin sacks, I assume that test year 2008 will have the same number of containers calculated based on the FY 2005 data. There are several reasons that I use this assumption. The proposed container rate is a completely new rate category for test year 2008. There are no existing data to forecast how mailers will react to this new incentive, combined with the other price, rate structure, and any resulting changes in standards. There is also no significant change in volume forecast -- the total outside county volume forecast for test year after-rates is about 97 percent of the FY 2005 volume. The effect of the recently implemented 24-piece per sack rule has been estimated and reflected in the presort-level adjustment to Periodicals volume as well as the 65 percent elimination of skin sacks. Given that Periodicals volume is relatively stable in total, but mailer preparation practices change, and the makeup of the Periodicals classification, itself, changes as publications are launched and others become defunct, the safest assumption appeared to be to hold the number of containers constant.
- (c) Confirmed. Please see my response to part (b).
- (d) I cannot make such an estimate. See my response to part (b).
- (e) As I said in my response to parts (b) and (d), I do not know how substantial the reduction in the number of containers used for Outside-County Periodicals mail will be. Even if the scenario posited in the question proved correct, the likely outcome would be

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-2, Page 3 of 3

that Periodical cost coverages would move in the direction of the historical figures during the late 1980s and early 1990s. I do not think that it would be entirely out of line for Periodicals to begin making a slightly more substantive contribution to institutional costs. And I would note that recent history seems to suggest that Periodicals cost coverages tend to move in the opposite direction from what is projected in the rate case. Perhaps the scenario laid out in the question would tend to offset such a movement.

(f) I cannot provide the estimate of the reduction in costs likely be fostered by the proposed container rate through TY 2008. As I mention in my response to part (b), the container rate is a completely new rate category for test year 2008. There are no existing data to forecast how mailers will react to a combination of rate, rate structure, and rule changes.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-3.** With respect to your testimony at page 4 lines 20-23, page 5 lines 2-3 and page 6 lines 9-12 that the proposed container rate is designed to achieve greater progress, and would send a better price signal, for purposes of encouraging Periodicals mailers to shift from sacks to pallets and to use fewer (fuller) containers:

(a) Please explain fully all reasons for the decision that for such purposes, the proposed container charge would send a better price signal, and likely achieve greater progress, than the current pallet discounts or enhanced versions of those discounts.

(b) Please compare, with as much quantitative specificity as possible, the incentives for Outside-County Periodicals mailers to shift from sacks to pallets under the proposed rate structure (including, without limitation, the container charge) with any such similar incentives under the current rate structure (including, without limitation, the effect of pallet discounts on the level of the piece rates generally).

(c) To the extent that Outside-County Periodicals mailers already use pallets, please compare, with as much quantitative specificity as possible, any rate benefits to such mailers for continued use of pallets under the current rate structure (including, without limitation, the pallet discounts that you propose to eliminate) with any similar such rate benefits under the proposed rate structure (including, without limitation, the effect of the container charge and other proposed rate design changes on the level of piece rates generally).

(d) For the purpose of gauging the impact of the proposed rate structure on Outside-County Periodicals mailers, please provide alternative (non-binding) piece rates designed to recover the same revenue as the proposed piece and container rates but substituting the current pallet discounts (with any adjustments that might be warranted) for the container charge.

(e) For the purpose of gauging the impact of the proposed rate design on Outside-County Periodicals mailers, please provide alternative (non-binding) piece rates designed to recover 60% (rather than 63% or 62.5%) of the aggregate piece, pound and container revenues for Outside-County Periodicals mail in TY 2008, both (i) under the proposed rate structure and (ii) under the alternative rate structure described in subpart (d) above.

**RESPONSE:**

(a) The incentive the container rate offers is not limited to pallets. It also encourages better preparation and efficient use of other containers, including sacks.

(b) The complex rate structure makes it difficult to compare the incentives to palletize today versus the incentives to palletize under the proposed rates. Each mailer

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-3, Page 2 of 2

will have to consider his particular circumstances to determine whether creating more efficient containers is worth it. Also, please see my response to MPA/USPS-T35-13.

(c) See my response to part (b). Also, the increased dropship discounts enhance the potential savings that could come with palletization. Under the proposed Periodicals rates, the dropship per-piece discounts have been increased from \$0.002 to \$0.003 for DADC entry, and from \$0.008 to \$0.011 for DSCF entry. Moreover, editorial pound dropship rates have been introduced to offer additional incentives: a DDU editorial pound rate of \$0.154, and a DSCF rate of \$0.193, comparing with the current rate of \$0.203.

(d-e) Developing prices involves a balancing of a number of rate design objectives. I cannot develop any hypothetical alternative prices that necessarily would have met those objectives.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-4.** With respect to your testimony at page 5 line 21 through page 6 line 8, noting data indicating for Periodicals mail an average of about 1642 pieces per pallet and 42 pieces per sack, and stating that if the proposed 85¢ container charge "were allocated to each mail piece within an average sack or pallet, each piece on a pallet would bear \$0.001, while each piece within a sack would bear \$0.02", a differential of \$0.019:

(a) Please confirm that the proposed container charge would impose an added per piece rate burden on sacks that contain relatively few pieces (for example, an aggregate \$0.040 per piece for a sack containing only one-half the average pieces per sack) that is approximately 40 times higher than the per-piece rate burden that the proposed container charge would impose on pallets that similarly contain relatively few pieces (for example, an aggregate \$0.0010 per piece for a pallet containing only one-half the average pieces per pallet). If you do not confirm, please explain fully.

(b) Please confirm that under the current rate structure, there are no rate disincentives to mailing relatively few pieces per sack or pallet (vis-à-vis the average number of pieces per sack or pallet, respectively), putting aside Postal Service rules specifying minimum pieces per sack or minimum weight per pallet. If you do not confirm, please explain fully.

(c) Please set forth and explain your view of the relative advantages and disadvantages of encouraging greater container utilization through such rules, as opposed to rate incentives such as the proposed container charge.

**RESPONSE:**

(a) Confirmed that varying the number of pieces per sack or per pallet results in a change in the relative per-piece effect of the container rate.

(b) Confirmed.

(c) I have not prepared an exhaustive review of the relative merit of price incentives versus rule imposition. In general, it seems that the use of prices, rather than rules, allows for greater flexibility.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-5.** Please refer to *Postal Bulletin* 22156 (6-9-05), pages 17 and 23, which announced revisions to the Domestic Mail Manual, including part 707.28.4.6 (entry of Periodicals mail at the destination delivery unit), and explained those revisions in part as follows:

The Postal Service is finding ways to make it easier for customers to enter mail. One way is by offering optional entry of unsacked bundles for specified flat-size mail. This will help reduce dependency on sacks and also help us increase efficiency and reduce costs. . . .

When entering mail at DDU facilities, mailers (or their drivers) must unload the mail within 1 hour of arrival and place the mail into containers that entry facility employees specify. DDU facility employees may also require drivers to keep bundles separated by individual 5-digit ZIP Codes or by 5-digit schemes.

(a) Please state whether the proposed container charge would apply to uncontainerized bundles of Periodicals mail that are entered at DDU facilities, where the bundles are unloaded by mailers, separated by mailers by 5-digit zip codes or 5-digit schemes or as otherwise specified by DDU personnel, and placed by mailers into corresponding rolling containers as specified by DDU personnel. Please explain your rationale fully.

(b) Please state whether the proposed container charge would apply to bundles of Periodicals mail that are entered at DDU facilities that cannot handle pallets, where the bundles are unloaded by mailers from pallets, separated by mailers by 5-digit zip codes or 5-digit schemes or as otherwise specified by DDU personnel, and placed by mailers into corresponding rolling containers as specified by DDU personnel, in accordance with DMM 707.28.4.6d. Please explain your rationale fully.

(c) Please state whether the proposed container charge would apply to bundles of Periodicals mail that are entered at DDU facilities, where the bundles are removed by mailers from sacks unloaded by mailers, are separated by mailers by 5-digit zip codes or 5-digit schemes or as otherwise specified by DDU personnel, and placed by mailers into corresponding rolling containers as specified by DDU personnel. Please explain your rationale fully.

**RESPONSE:**

(a) The proposed container charge is an integral part of the rate structure. Its existence allows for other rate elements to be lower than they otherwise would be, so it must apply to all mailings. The proposed container rate would therefore apply to

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-5, Page 2 of 2

mailings comprised of uncontainerized bundles of Periodicals mail that are entered at DDU facilities. The relatively rare situations where pallets or sacks are not used, as in this example, require alternative means for assessing the charge. These means will be the subject of specific standards that will be published in the Federal Register for comment. In this instance, one possibility would be to assess the container rate for each 5-digit ZIP Code or 5-digit scheme that is serviced by the DDU when the mailer presents carrier route bundles destined for those 5-digit ZIP Codes or 5-digit schemes.

(b) The proposed container rate would apply to Periodicals mail that is entered at DDU facilities as described. Please see my response to (a) as to how the container rate could be assessed.

(c) The proposed container rate would apply to Periodicals mail that is entered at DDU facilities as described. Please see my response to (a) as to how the container rate is to be assessed.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-6.** With respect to proposed advertising pound dropship discounts, editorial pound dropship discounts, and per-piece dropship discounts for Outside-County Periodicals mail:

(a) Please confirm that the "Cost Avoided" for "Pound Rate Dropship Discounts" in cells C47, C48 and C49 of worksheet "Pound Data\_Adv" are the same as the "Nontransportation Handling Costs Avoided" in cells D10, D11 and D12 of worksheet "Discounts." If you do not confirm, please explain fully.

(b) Please explain fully (showing calculations) why each "Final Discount" for "Pound Rate Dropship Discounts" in cells E47, E48 and E49 of worksheet "Pound Data\_Adv" differs from the rate differentials reflected in cells E56 through E59 (and cells D78 through D81) of that worksheet.

(c) Please confirm that the proposed editorial pound dropship discounts are based on the same cost savings as the proposed advertising pound dropship discounts, and differ from the latter only in that (i) the former are benchmarked from the proposed \$0.232 unzoned editorial pound charge while the latter are benchmarked from the proposed \$0.279 zone 1&2 charge, and (ii) the former reflect a 40% passthrough of cost savings while the latter reflect a 50% passthrough. If you do not confirm, please explain fully.

(d) With reference to your worksheet "Discounts", lines 10-12, and your worksheet "Piece Discounts 2", lines 17-19 and 34-36, please confirm that the proposed per-piece dropship discounts are based on the same nontransportation handling cost savings as the proposed per-pound dropship discounts, and differ from the latter only in that (i) the per-piece discounts reflect higher passthroughs of cost savings but (ii) otherwise reflect only 45.4% of the nontransportation savings reflected in the per-pound discounts, based on an average weight per piece of 0.454 pounds, and (iii) do not reflect any transportation savings. If you do not confirm, please explain fully.

(e) Please confirm that the dropship discounts based on nontransportation handling cost savings are first calculated on a per-piece basis, and then converted into per-pound discounts based on the average weight per piece (or average pieces per pound). If you do not conform, please explain fully.

**RESPONSE:**

(a) Confirmed.

(b) Cells E47, E48 and E49 of worksheet "Pound Data\_Adv" are calculated from the handling cost savings. Cells E56 through E59 are derived from a combination of distance-related and non-distance related costs. As applied in previous rate cases,

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-6, Page 2 of 2

distance-related cost is applied to the ADC level and above (zones 1&2 through zone 8), while non-distance related cost is applied to all zones except DDU.

(c) Confirmed.

(d) Confirmed that the unit cost savings in worksheet "Piece Discounts 2", lines 17-19, use the avoided handling costs in worksheet "Discounts", lines 10-12.

In worksheet "Piece Discounts 2", the numbers in lines 34-36 are derived by applying corresponding passthroughs to the cost savings numbers in lines 17-19, and then rounding the results to three digits after the decimal point.

I understand that the aforementioned avoided handling costs do not reflect transportation savings. Please also see my response to part (e).

(e) I understand that the per-piece and per-pound handling cost savings use the same measure of avoided costs. They are just stated in different terms.

**RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.**

**MH/USPS-T35-7.** Please refer to your testimony at page 6 line 22 through page 7 line 3: "I propose a 37 – 63 split between revenue to be raised by pounds and pieces. This slight deviation from the traditional 40 – 60 split is moving towards the long-observed trend that the piece side contributes more than 60 percent of mail processing and delivery costs. See R2000-1, USPS-T-28 [witness Daniel], pages 18 -19b. The Postal Service believes that this design better reflects actual cost incurrence."

Please refer also to your testimony at page 11, lines 17-22: "The non-transportation related (handling) cost savings form the basis of the per piece dropship discounts. . . . In this docket I propose to continue splitting the non-transportation costs equally between pieces and pounds."

(a) Please confirm that the non-transportation costs that you propose to continue splitting equally between pieces and pounds include those referred to by witness Mayes (USPS-T-25, at page 6 line 20) as the costs of "bulk transfer operations" (such as crossdocking at non-destination facilities), from which the per-piece and (in part) the per-pound dropship discounts are calculated. If you do not confirm, please explain fully.

(b) Please confirm that according to the cited testimony of witness Daniel in R2000-1 (USPS-T-28 at page 18 lines 13-22), non-transportation costs tend to be substantially more piece-related, and less pound-related, than transportation costs. If you do not confirm, please explain fully.

(c) Please explain fully why, in light of the testimony of witness Daniel in R2000-1, and in light of your proposal in this docket to change the overall pound/piece revenue split from 40–60 to 37-63, you nevertheless propose to maintain a 50-50 pound/piece revenue split for the non-transportation costs in question.

(d) Please confirm that to the extent a less than 50-50 pound/piece revenue split were adopted for the non-transportation costs in question, the per-piece dropship discounts would be commensurately larger, and the per-pound dropship discounts would be commensurately smaller, assuming that your rate design approach was otherwise unchanged.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) The non-transportation cost referred to in witness Daniel's testimony is the total cost of Periodicals less the transportation cost. This non-transportation cost includes mail-processing, delivery, and other cost segments, excluding cost segment(s) relating to transportation. The non-transportation or bulk transfer operations cost that is provided

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-7, Page 2 of 2

by witness Mayes is a very small portion of the costs discussed in the testimony of witness Daniel. We maintain that these costs are container related, whereas the Postal Rate Commission deems them to be more pound related than piece related. Please see PRC Op., R2000-1, page 437, paragraph 5684. In Docket No. R2000-1, the Postal Service proposed a 70/30 split of these costs between pieces/pounds for a different reason altogether (please see PRC Op., R2000-1, page 436, paragraph 5681). The Postal Rate Commission rejected that change and maintained the 50/50 split of these costs between pieces and pounds. (Please see PRC Op., R2000-1, page 437, paragraph 5685).

(d) All else being equal, if more than 50 percent of the non-transportation costs were allocated to the piece side, the per-piece dropship discounts would be larger and the per-pound dropship discounts would be smaller.

**RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.**

**MH/USPS-T35-8.** Please refer to your worksheet Piece Discounts, lines 3-6:

- (a) Please confirm that the piece rate target revenue in cell C4 amounts to 62.5%, rather than the stated 63%, of the required revenue set forth in cell C3 for Outside-County Periodicals mail. If you do not confirm, please explain fully and show your calculations.
- (b) Please confirm that the actually derived piece rate revenue in cell C5 amounts to about 62.58% of the required revenue set forth in cell C3 for Outside-County Periodicals mail. If you do not confirm, please explain fully and show your calculations.
- (c) Please confirm that the revenue needed from pound rates in cell C6 amounts to \$924,926,363 (cell C3 minus cell C5) (amounting to about 37.42% of the required revenue set forth in cell C3), rather than the stated \$934,355,798 (a difference of \$9,429,435). If you do not confirm, please explain fully and show your calculations.
- (d) Please explain fully any significance of the fact that the seeming overstatement of the revenue needed from pound rates in cell C6 amounts to the revenue leakage from the 1.3¢ adjustment to the unzoned editorial pound rate, set forth in cell C47 of worksheet Pound Data\_Ed.
- (e) Please confirm that if the revenue needed from pound rates in cell C6 of worksheet Piece Discounts is overstated by \$9,429,435, the editorial pound revenue as a percentage of target in cell E42 of worksheet Pound Data\_Ed would increase to approximately 96.16%, and the total pound revenue as a percentage of target in cell F101 of worksheet Pound Data\_Adv would increase to approximately 98.03%. If you do not confirm, please explain fully and show your calculations.

**RESPONSE:**

- (a) Confirmed.
- (b) Confirmed.
- (c-d) Confirmed that cell C3 minus cell C5 yields a result of \$924,926,364, which shows a difference of \$9,429,434 from the \$934,355,798 in cell C6. As stated in my testimony, in order to mitigate the rate impact on editorial pounds, an adjustment of \$0.013 is applied to the average (non-dropship) editorial pound rate. To recover the revenue leakage caused by this adjustment, this leakage is added back to the total revenue requirement from the pound side and allocated to all pounds.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-8, Page 2 of 2

(e) All else being equal, if this \$934,355,798 in cell E40 of worksheet "Pound Data\_Ed" is replaced by \$924,926,364, the value in cell E40 would become \$473,612,879, and the value in cell E42 would increase to 95.23 percent. In worksheet "Pound Data-Adv," all else being equal, if the \$934,355,798 figure in cell F99 is replaced by \$924,926,364, the value in cell F101 would be 98.03 percent.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-9.** Please refer to your response to Presiding Officer's Information Request No. 2, Question No. 8, which states that: "[T]he initial split between pound and piece revenue is 37.5 – 62.5. Although the container rate is neither a pound nor a piece rate, in this case the container revenue was added back to the calculated piece revenue .... This was done to mitigate the rate impact on the piece side in this particular case, but this approach may not be followed in future cases. Since the additional revenue from the container rate was included in the revenue needed from the piece rates, the proportion of the revenue collected from the piece side actually is reduced."

(a) Please confirm that the container revenue for Outside-County Periodicals mail (\$43,319,140) amounts to about 1.75% of the total revenue required from the pound, piece and container rates (cell C3 of worksheet Piece Discounts). If you do not confirm, please explain fully and show your calculations.

(b) Please confirm that the proposed piece rates actually account for only about 60.83% (62.58 minus 1.75) of the total revenue required from the pound, piece and container rates. If you do not confirm, please explain fully and show your calculations.

(c) Please explain fully why you believed it appropriate to increase the percentage of revenue to be derived from the pound rates (from 37% to 37.42%) (approximately \$10.4 million) in order to mitigate the impact of the piece rates.

(d) Please confirm that if the target revenue for the pound rates were 37% of the total revenue to be derived from the pound and piece rates (cell C3 of worksheet Piece Discounts minus \$43,319,140), the proposed pound rates would more than cover that target. If you do not confirm, please explain fully and show your calculations.

(e) Please confirm that if the target revenue for the pound rates were 37% of the total revenue to be derived from the pound and piece rates, and editorial pounds were required to cover 51.2% of pound revenues (as you propose), the proposed editorial pound rates would cover more than 98% of the target set for them. If you do not confirm, please explain fully and show your calculations.

(f) Please confirm that the actual revenues derived from the proposed piece rates (cell C5 of worksheet Piece Discounts minus \$43,319,140) amounts to only 61.9% of the total revenue to be derived from the pound and piece rates. If you do not confirm, please explain fully and show your calculations.

(g) Please confirm that if the target revenue for the piece rates were 63% of the total revenue to be derived from the pound and piece rates, the proposed piece rates would cover only 98.27% of that target (\$1503.537 million divided by \$1529.9319 million). If you do not confirm, please explain fully and show your calculations.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-9, Page 2 of 2

**RESPONSE:**

- (a) Confirmed.
- (b) Confirmed.
- (c) The rate design process usually does not guarantee that the ending percentage necessarily matches perfectly with the initial starting point. (In this instance, the ending 37.42 percent does not exactly match the initial allocation of 37.5 percent.) Please see my response to TW/USPS-T35-3. This variation is unrelated to rate impact mitigation.
- (d) Confirmed.
- (e) Confirmed.
- (f) Confirmed.
- (g) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-10.** With reference to your worksheet "Rev. Adj+Ed. Cont.", cells D59-61 and D66-68, and your worksheet Pound Data\_Ed, cells D14-16 and D 28-30

(a) Please confirm that according to the FY 2005 data upon which you rely, approximately 67% of the editorial pounds of Outside-County Periodicals mail is already dropshipped (i.e., entered at the destination ADC, destination SCF, or destination delivery unit). If you do not confirm, please explain fully.

(b) Please confirm that according to the data, only 7.12% of the editorial pounds of Outside-County Periodicals mail is entered in zone 6 or higher. If you do not confirm, please explain fully.

(c) Please state whether, in proposing to establish editorial-pound dropship discounts from the longstanding flat editorial pound charge, the primary goal of the Postal Service is to encourage additional dropshipping or to reward those mailers who are already dropshipping two thirds of all editorial pounds, and explain fully the goals of the Postal Service in this regard and the reasoning underlying those goals.

(d) Please confirm that in developing the proposed rates, you assumed that no additional editorial pounds would be dropshipped in FY 2008. If you do not confirm, please explain fully, with references to the record.

(e) Please confirm that according to your worksheets (Rev. Adj+Ed Cont., cell C60; Pound Data\_Ed., cell D29; RR TYAR, cells B18 and B36; NP TYAR, cell B18; CR TYAR, cell B18), even if the proposed editorial pound dropship discounts are implemented, the number of editorial pounds dropshipped by Outside-County Periodicals mailers to a destination SCF in FY 2008 will decline by some 732.3 million pounds, by comparison with FY 2005. If you do not confirm, please explain fully, with references to the record, and showing calculations. If you do confirm a substantial decline, please explain fully the reasons for the decline

(f) For each proposed dropship (destination entry) rate category for editorial pounds of Outside-County Periodicals mail, please provide your best estimate of the number of editorial pounds of Outside-County Periodicals mail that are not presently being dropshipped, but that would be dropshipped in TY 2008 under the proposed editorial pound dropship discounts, and explain the basis for your estimates.

(g) Assuming that the proposed editorial pound dropship discounts were to be implemented, please provide your best estimate of the net savings (not passed through to mailers) that would accrue to the Postal Service in TY 2008 as a result of dropshipping that would not occur absent editorial pound dropship discounts, and explain the basis for your estimate.

**RESPONSE:**

(a) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-10, Page 2 of 2

- (b) Confirmed.
- (c) The goal here is to offer price signals to change the behavior of those not dropshipping. At the same time, the Postal Service is not proposing to <sup>deny</sup> discounts to those that are already reducing the Postal Service costs by dropshipping.
- (d) Confirmed.
- (e) Not confirmed. My calculation shows a decrease of 39.0 million pounds. By adding up "RR TYAR" cells B18 and B36, "NP TYAR" cell B18, and "CR TYAR" cell B18, I get a total of 1,151,553,834 editorial pounds at the SCF level for the Test Year. Subtracting this 1,151,553,834 from the 1,188,878,877 figure in "Pound Data\_Ed." cell D29 yields 37,325,043, which shows the differential between the number of editorial pounds dropshipped by Outside-County Periodicals mailers to a destination SCF in FY 2008 and the Base Year, FY 2005. Since no separate projection or estimate has been made regarding the dropshipped editorial pounds, this volume decrease reflects the volume forecast for Outside County Periodicals, which shows a ratio of 96.9 percent between TYAR and the base year.
- (f-g) Please see my response to parts (d-e).

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-11.** Please refer to your testimony at page 8 lines 20-22 and page 9 lines 7-19:

In order to make sure that the ECSI value from editorial pounds is recognized and reflected in rate design, an adjustment of \$0.013 is applied to the average editorial pound rate. . . .

. . . This balanced approach would provide incentives for Periodicals mail to be dropshipped closer to the destination. Meanwhile, it also would mitigate the impact of rate increases on those who are not able to take advantage of these incentives. Finally, in addition to the aforementioned \$0.013 adjustment to the editorial pound rates to mitigate the impact, I propose to raise the 50 percent passthrough to 80 percent for the rate differentials derived for the advertising pound rates. The flat editorial pound rate . . . . increases by 14.29 percent, less than three percentage points above the average increase. Through this rate design, the Postal Service believes that mailers, both large and small, would have the potential to move significant volume of mail to destinating facilities.

(a) Please confirm that by proposing an above-average 14.3% increase in the unzoned editorial pound rate, in conjunction with creating editorial pound dropship discounts, the Postal Service did not intend to penalize relatively small, high-editorial publications that are distributed nationally, and for whom copalletization and dropshipping may not be feasible options. If you do not confirm, please explain fully.

(b) Please confirm that the unzoned editorial pound charge has traditionally been set at 75% of the zone 1&2 advertising pound charge (which would amount to \$0.209 per pound under the proposed rates), but is proposed to be set in this case at 83.2% of the proposed zone 1&2 advertising pound charge (amounting to \$0.232 per pound). If you do not confirm, please explain fully. In either event, please explain your use (at page 8 lines 21-22) of the term "average" editorial pound rate.

(c) Please confirm that the proposed 14.3% increase in the unzoned editorial pound charge is the only proposed double-digit increase among the pound charges for Outside-County Periodicals mail, and exceeds the proposed percentage increases for all but three of the piece charges for such mail. If you do not confirm, please explain fully.

(d) Please provide the weighted-average percentage increase proposed for (i) the advertising pounds and (ii) the piece charges, respectively, for Outside-County Periodicals mail, and show your calculations.

(e) Please confirm that if as a policy matter the Postal Service wished to do so, it would be feasible for the Postal Service to make a further reduction of up to 2.3¢ in the unzoned editorial pound charge, without necessarily reducing the proposed editorial pound dropship discounts, because both the advertising/editorial revenue split and the

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-11, Page 2 of 4

pound/piece/container revenue split are ultimately guided by rate design objectives, as you appear to recognize at page 9 (lines 1-10) of your testimony and in your response to Presiding Officer's Information Request No. 2, Question 8. If you do not confirm, please explain fully.

(f) Please explain fully: (i) whether the Postal Service considered making any such further reduction in the proposed unzoned editorial pound charge, and if so, specify the reduction that was considered and explain fully why the Postal Service decided against it; and (ii) whether the Postal Service deemed it more important to "mitigate the rate impact on the piece side" (response to Presiding Officer's Information Request No. 2, Question 8), and if so, please explain fully the reasons why.

(g) Please specify the "rate differentials derived for advertising pound rates" for which you "propose to raise the 50 percent passthrough to 80 percent" (page 9 lines 12-13 of your testimony), and specify the costs subject to passthrough and the precise portions of your workpapers where the referenced differentials and passthrough are reflected.

RESPONSE:

(a) Confirmed.

(b) The current unzoned editorial pound rate is \$0.203, about 78 percent of the current Zones 1&2 advertising pound rate of \$0.261. I can confirm that the proposed rate for non-dropshipped editorial pounds is about 83.2 percent of the proposed Zones 1&2 advertising pound rate. The term "average" comes from the Outside County Periodicals rate design workbook, worksheet "Pound Data\_Ed.", cell C8. It represents the proposed non-dropshipped editorial pound rate, to which the \$0.013 deduction adjustment ("Pound Data\_Ed" cell C45) has been applied.

(c) Not confirmed. On the pound side, other than the 14.3 percent increase for non-dropship editorial pounds, the proposed double-digit rate changes that are more than 14.3 percent include: a 24.1 percent decrease for DDU editorial pounds, a 43.4 percent

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-11, Page 3 of 4

decrease for DDU Science of Agriculture editorial pounds, a 29.1 percent decrease for DSCF Science of Agriculture editorial pounds, and a 22.7 percent decrease for DADC Science of Agriculture editorial pounds. On the piece side, the proposed double-digit rate changes that are more than 14.3 percent include a 16.0 percent increase for Basic Automation Flat, a 17.4 percent increase for Carrier Route High Density, a 37.5 percent increase for the DSCF entry discount, a 50 percent increase for the DADC-entry discount, and an 18.3 percent increase for ride-along pieces.

(d) I sum up the test-year-after-rates revenue and volume in worksheets "RR TYAR", "NP TYAR", and "CR TYAR", and divide the total advertising pound revenue (\$439,864,166) by advertising pounds (1,569,469,593) to derive the weighted-average revenue per advertising pound of \$0.282. The total piece revenue (\$1,452,280,853) divided by total pieces (8,049,954,276) gives the weighted-average revenue per piece of \$0.180. By the same token, in worksheet "Test Year BR with 24pc Adjustm't", the total advertising pound revenue (\$423,122,874) divided by advertising pounds (1,616,749,608) yields the test-year-before-rates revenue per advertising pound of \$0.262; the total piece revenue (\$1,331,944,540) divided by volume (8,332,198,836) yields test-year-before-rates revenue per piece of \$0.160.

(i-ii) Based on the figures above, the weighted-average percentage increase for advertising pounds is 7.6 percent; the weighted-average percentage increase for piece rates is 12.8 percent.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

MH/USPS-T35-11, Page 4 of 4

(e-f) Using the same methodology, the weighted-average percentage increase for editorial pounds is 2.2 percent (test-year-after-rates revenue per editorial pound of \$0.207 vs. test-year-before-rates revenue per editorial pound of \$0.203). The Postal Service believes that the ECSI value has been sufficiently recognized by the proposal and does not plan on making further reduction in the editorial pound rate.

(g) The rate differentials refer to cells C14-C16 in worksheet "Pound Data\_Ed." The costs subject to passthroughs are shown in worksheet "Pound Data\_Adv." Please see my response to MPA/USPS-T35-22 for the details of how the costs have been applied to develop the advertising pound rates.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-12.** For purposes of gauging the impact of the proposed rate structure on Outside-County Periodicals mailers:

(a) Please provide alternative (non-binding) pound rates designed to recover the same revenue as the proposed pound rates and containing an unzoned editorial pound charge set at 75% of the zone 1&2 advertising rate, but not containing editorial pound dropship discounts.

(b) Please provide alternative (non-binding) pound rates designed to designed to recover 40% (rather than 37% or 37.5%) of the aggregate piece, pound and container revenues for Outside-County Periodicals mail in TY 2008, both (i) under the proposed rate structure and (ii) under the alternative rate structure described in subpart (a) above.

**RESPONSE:**

(a-b) I cannot provide alternative pound rates as requested. Developing prices involves a balancing of a number of rate design objectives. I cannot develop any hypothetical alternative prices that necessarily would have met those objectives.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-13.** With reference to your testimony at page 9 lines 1-7:

(a) Please explain fully your reference on line 2 to "increased dropship discounts," by reference to your workpapers and/or otherwise.

(b) Please explain fully how allocating fewer (48.8% rather than 50%) of the transportation costs to advertising pounds would increase the rates for farther zones.

(c) Please explain fully your use of the term "pound allocation" (as opposed to revenue allocation) on line 6 and explain fully the derivation of a 50% allocation of transportation costs to advertising pounds, by reference to your workpapers and/or otherwise.

**RESPONSE:**

(a-c) I will be filing a revised first paragraph on page 9 of my testimony to clarify this point. The revision will read as follows:

One of the goals of the Postal Service's proposal is to maintain or increase the current difference between dropship rates (DDU, DSCF & DADC) and the farther zones such as Zones 7 and 8. The allocation of transportation costs between advertising and editorial pounds can be done using the same ratio as the one used for the allocation of revenue, i.e. 48.8 percent advertising and 51.2 percent editorial. However, I have chosen to allocate 50 percent of the transportation costs to advertising pounds because doing so increases the difference between dropship rates and farther zones, and thereby improves the incentives for dropshipping Periodicals mail closer to the destination.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-14.** With reference to your worksheet Piece Discounts 2, please explain fully the 24% passthrough for palletized pieces in cell D20.

**RESPONSE:**

Please ignore the 24 percent figure, as it is not used in the workbook. This figure would be the passthrough percentage for a pallet discount; however, no such discount is included in the proposal. It is a remnant of previous rate design models that did include such a discount.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-15.** With reference to your worksheet Discounts, please reconcile the 9.795¢ unit mail processing cost for carrier route nonautomation mail in cell C33 with the 4.011¢ unit mail processing cost for basic carrier route mail in cell C59.

**RESPONSE:**

The two numbers in question are from different sources. The 9.795¢ unit mail processing cost for carrier route nonautomation mail in cell C33 is developed in LR-L-43 for Periodicals, and this number is used to calculate the rate differential between nonautomation 5-digit and Carrier Route Basic pieces. However, no data are developed specifically for Periodicals regarding the mailing processing cost beyond the Carrier Route Basic level, that is, for High Density and Saturation. Consistent with the approach adopted in previous rate cases, for rate design purposes, we use the costs developed for Standard Mail (LR-L-84). The 4.011¢ figure for Carrier Route Basic in cell C59 and the 1.599¢ in cells C60 and C61 all reflect Standard Mail mail processing costs. The differential of mail processing and delivery costs between Carrier Route Basic and High Density is then calculated in cell F61 and used to develop the Carrier Route High Density rate.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-16.** Please refer to USPS-LR-L-158, *Standard Operating Procedures for Periodicals Processing*, at page 3. The second paragraph discusses a new requirement (effective July 6, 2003) that Periodicals mailers separate out origin mixed ADC flats from other mixed ADC flats – “[s]plitting the pieces into two separate bundles and the bundles into two separate sacks” – so that origin mixed ADC flats (having destinations closer to the entry office than other mixed ADC flats) can be sent to facilities designated in labeling list L201 for processing with First-Class mail receiving surface transportation, while other mixed mail sacks are sent to more distant facilities. (See also *Postal Bulletin* 22166 [10-27-05] at page 6). Please state whether the proposed 85¢ container charge would be applied to both origin mixed ADC sacks and other mixed ADC sacks that, under the new rule, mailers are no longer permitted to consolidate, and explain the rationale fully.

**RESPONSE:**

As stated in my response to MH/USPS-T35-5(a), the proposed container charge is an integral part of the rate structure. Its existence allows for other rate elements to be lower than they otherwise would be, so it must apply to all mailings. The proposed container rate would therefore apply to mailings comprised of mixed ADC sacks.

It is my understanding that this new requirement would result in no more than one additional sack. See witness McCrery's response to MH/USPS-T42-3.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE MCGRAW-HILL COMPANIES, INC.

**MH/USPS-T35-17.** Please explain whether it may be practicable and appropriate to establish a discount from the proposed container charge in circumstances such as those described in MH/USPS-T35-16 and/or MH/USPS-T35-5.

**RESPONSE:**

It is likely that any additional rate elements regarding the container rate would add unwarranted complexity. Please see my responses to MH/USPS-T35-5 and 16.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-1** Please refer to Section IV.A. of your testimony, which discusses the container fee.

- a. Please confirm that mailers may be allowed to enter *Periodicals and Standard Mail* in the same containers in the Test Year. If not confirmed, please explain fully.
- b. Assume that a pallet contains 100 pieces of *Periodicals Outside County* mail pieces and 1000 pieces of *Standard Mail*. What will the *Periodicals Outside County* container charge be for this container? Please explain fully.
- c. Assume that a pallet contains 1000 pieces of *Periodicals Outside County* mail pieces and 100 pieces of *Standard Mail*. What will the *Periodicals Outside County* container charge be for this container? Please explain fully.
- d. Assume that a pallet contains co-palletized *Periodicals Outside County* pieces from multiple publications. How does the Postal Service plan to allocate the container charge to the individual publications on the pallet for postage payment purposes?
- e. Assume that a pallet contains co-mail *Periodicals Outside County* pieces from multiple publications. How does the Postal Service plan to allocate the container charge to the individual publications on the pallet for postage payment purposes?
- f. How will the container charge be applied to "unsacked" *Periodicals Outside County* bundles that are not containerized? Please explain fully.
- g. How will the container charge be applied to *Periodicals Outside County* pieces entered in trays? Please explain fully.
- h. Please produce source documents, or provide citations to source documents, sufficient to verify your answers to the previous parts of this question.

**RESPONSE:**

- a. Confirmed.
- b. The proposed *Periodicals Outside County* container rate of 85 cents will be applied to this container. Any pallet that contains *Periodicals* mail is subject to the container charge.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T35-1, Page 2 of 2

- c. Please see my response to part b.
- d. There are two options: The container rate can be claimed on the postage statement of one of the publications; or a separate form can be submitted to pay the container rate for the entire mailing.
- e. Please see my response to part d.
- f. The vast majority of Periodicals mail is in sacks or on pallets. Nevertheless, the container rate is an integral part of Periodicals pricing and all Outside County mailings will be subject to it, including those that are not in sacks or on pallets. We are currently reviewing the other possible containerization methods and how the 85-cent container rate will apply.
- g. Please see my response to part f.
- h. My answers to these questions are based on my understanding of how the container rate will be implemented. They reflect the organizational position regarding the container rate.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-2** Please refer to the discussion of Ride-Along Pieces on page 14 of your testimony and USPS-LR-L-126, R2006-1 Outside County. xls, worksheet 'Pound Data\_Adv.'

- a. Please confirm that under the proposed rates the average revenue per advertising pound is 28.2 cents. If not confirmed, please provide the correct figure.
- b. Do you have any reason to believe that the zone distribution of Ride-Along pieces is different than the zone distribution of Periodicals Outside County advertising pounds? If so, please explain your response fully and provide the zone distribution of Ride-Along pieces.
- c. What is the average weight of a Ride-Along piece?
- d. Please confirm that substituting the average revenue per advertising pound for the Zone 8 advertising pound rate in the formula discussed on Page 14 of your testimony yields a rate of 5.8 cents. If not confirmed, what rate would result from substituting the average revenue per advertising pound into this formula?
- e. Please provide your best estimate of the average cost per piece of a 3.3 ounce Ride Along piece with the same zone distribution as Periodicals Outside County advertising pounds. Please explain your methodology fully.
- f. Please produce source documents, or provide citations to source documents, sufficient to verify your answers to parts (a)-(c), (e), and (f) of this question.

**RESPONSE:**

As background, it may be helpful to review the history of the ride-along rate. In

Docket No. MC2000-1, Witness Taufique (USPS-T-1) stated that:

Currently, Periodicals mailers face restrictions both on the amount and type of advertising that can be included either within the publication, or as a supplement. For example, commercially available products such as cosmetics and perfumes are prohibited from being mailed at Periodicals rates. So are contents which are not comprised of printed sheets such as cloth, leather, and other non-paper material. All advertising matter or other enclosures or attachments that do not meet the requirements for mailing at Periodicals rates can be attached to the publication or included as enclosures, but pay a separate Standard (A) rate ... [which is] prohibitively expensive ... (Page 2, line 3 – 17)

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T35-2, Page 2 of 3

The experimental "Ride-Along" classification change for Periodicals is expected to provide a cost-effective method to mail what are now Standard (A) supplements, including very small product samples, to targeted markets. (Page 4, line 2 – 4)

A Ride-Along piece has never been, and should not be, treated as an element of average Periodicals advertising pounds. The Ride-Along rate was developed to respond to customer demand, and provide a new, effective, and affordable advertising medium to Periodicals mailers. Its rate is considerably cheaper than alternatives for mailing advertising materials (product samples, small catalogs etc.) that were used by publishers prior to the introduction of Ride-Along rates, such as Standard Mail enclosures and attachments. The Ride-Along weight is not included in the calculation of advertising pounds. The Ride-Along revenue is included in the total Periodicals revenue, which improves the class contribution.

The methodology I used to develop the proposed Ride-Along per-piece rate (see page 14 in my testimony) is consistent with the original approach described on page 5 of witness Taufique's testimony in Docket No. MC2000-1.

- a. Confirmed.
- b. The FY 2005 PostalOne Mailing Statement data indicate the following zone distribution for Ride-Along pieces. (The data exclude Ride-Along pieces whose host piece does not have any advertising content, because of the lack of zone data for the host piece.) Compared to the zone distribution for Periodicals Outside County advertising pounds, higher proportions tend to be found in zones 3 to 8.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T35-2, Page 3 of 3

Periodicals Outside County Zone Distribution of Ride-Along Pieces Source: PostalOne Mailing Statement Data FY 2005		
DDU	519,323	0.31%
DSCF	76,086,523	45.16%
DADC	20,065,226	11.91%
Zones 1 & 2	12,068,225	7.16%
Zone 3	8,435,469	5.01%
Zone 4	15,031,654	8.92%
Zone 5	17,114,610	10.16%
Zone 6	8,085,034	4.80%
Zone 7	5,302,564	3.15%
Zone 8	5,761,081	3.42%
Total	168,469,709	100.00%

- c According to the FY 2005 PostalOne Mailing Statement data, the average weight of a Ride-Along piece is 1.45 ounces.
- d I can confirm that the mathematical calculation gives a result of 5.8 cents, when rounded to one digit after the decimal point. But this result is unrelated to the Ride-Along rate.
- e Redirected to the Postal Service.
- f Sources are provided in the relevant responses.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,  
AND THE ALLIANCE OF NONPROFIT MAILERS

**MPA/USPS-T35-3** Please refer to USPS-LR-L-126, R2006-1 Outside County.xls, worksheet 'Rates.'

- a. Please confirm that the average pound rate for destination-entered advertising pounds is 16.7 cents less than the average pound rate for Zones 1-8 advertising pounds. If not confirmed, please provide the correct figure and your underlying calculations.
- b. Please confirm that the average pound rate for destination-entered editorial pounds is 3.7 cents less than the average pound rate for Zones 1-8 editorial pounds. If not confirmed, please provide the correct figure and your underlying calculations.
- c. Please confirm that the average passthrough of the pound-related costs avoided by dropshipping editorial pounds is only 22% (3.7 cents divided by 16.7 cents). If not confirmed, please explain fully and provide the correct figure.
- d. Taking into account your responses to subparts (a)-(c) of this interrogatory, would you agree that, under the proposed rates, dropshipping an editorial pound increases the Periodicals Outside County subclass contribution by an average of 13 cents per editorial pound? If not confirmed, please provide the correct figure.

**RESPONSE:**

a. I can confirm the arithmetic, if the average pound rates were derived by dividing the total revenue from destination-entered advertising pound rates by the total destination-entered advertising pounds, and likewise by dividing total revenue from Zones 1-8 advertising pound rates by total Zones 1-8 advertising pounds. However, when calculating dropship savings in rate design, the Zones 1&2 rate has been used as a benchmark (see table below), not the average editorial or advertising pound rates.

	Proposed Advertising Pound Rate		Dropship Saving	
DDU	\$	0.181	\$	0.098
DSCF	\$	0.230	\$	0.049
DADC	\$	0.251	\$	0.028
Zone 1 & 2	\$	0.279		

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,  
AND THE ALLIANCE OF NONPROFIT MAILERS

MPA/USPS-T35-3, Page 2 of 3

b. I can confirm the arithmetic, if the average pound rates were derived by dividing the total revenue from destination-entered editorial pound rates by the total destination-entered editorial pounds, and likewise by dividing total revenue from Zones 1-8 editorial pound rates by total Zones 1-8 editorial pounds. However, when calculating dropship savings, the Zones 1&2 rate has been used as a benchmark (see table below), not the average editorial or advertising pound rates.

	Proposed Nonadvertising Pound	Dropship Saving
DDU	\$ 0.154	\$ 0.078
DSCF	\$ 0.193	\$ 0.039
DADC	\$ 0.210	\$ 0.022
Zone 1 & 2	\$ 0.232	

The new dropship discounts were designed to introduce a new concept in a balanced way. They would make dropship discounts more fairly available to all Periodicals mail, while at the same time, account for the impact on non-dropshipped editorial content.

c. As I said in my responses to parts a and b, the Zones 1&2 rate has been used as a benchmark to calculate the dropship savings. In worksheet "Pound Data\_Ed." in LR-L-126, the table between row 10 and row 24 shows the editorial pound revenue leakage at 80 percent of the advertising pound dropship rates differentials, which are calculated at a 50 percent passthrough (see worksheet "Pound Data\_Adv"). 80 percent multiplied by 50 percent yields an overall 40 percent passthrough.

Please also note that the dropship savings are applied to the pound as well as the piece rate design. In my worksheet "Piece Discount 2," cells D17, D18, and D19 show that on the piece side, the passthroughs are 68 percent at the DDU level, 80 percent at the

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,  
AND THE ALLIANCE OF NONPROFIT MAILERS

MPA/USPS-T35-3, Page 3 of 3

DSCF level, and 85 percent at the DADC level. The dropship incentives should be looked at in a comprehensive fashion from both the piece and the pound sides.

d. Not confirmed. Please see my responses to part a to c.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,  
AND THE ALLIANCE OF NONPROFIT MAILERS

**MPA/USPS-T35-4** Please refer to USPS-LR-L-126, R2006-1 Outside County.xls, 'Piece Discounts.'

- a. Please confirm that 30 percent of Periodicals Outside County volume is entered at the 5-Digit Automation Flat rate. If not confirmed, please provide the correct figure.
- b. Please confirm that 47 percent of Periodicals Outside County volume is entered at Carrier Route rates. If not confirmed, please provide the correct figure.
- c. Please confirm that two percent of Periodicals Outside County volume is entered at the 5-Digit Nonautomation rate. If not confirmed, please provide the correct figure.
- d. Based upon your knowledge of comailing, would you expect that one major effect of comailing on mail preparation is the upgrading of flats from the 5-Digit Automation rate to the Carrier Route Basic rate? Please explain your response fully.
- e. Would you expect that, for most publications, the savings available from upgrading 5-Digit Automation Flats to the Carrier Route Basic piece rate provide the single largest postage incentive to comail? Please explain your response fully.
- f. Given your response to subparts (a) through (e) of this interrogatory, would you agree that the relationship between the 5-Digit Automation Flat rate and the Carrier Route Basic rate has more practical importance than the relationship between the 5-Digit Nonautomation rate and the Carrier Route Basic rate? Please explain your response fully.

**RESPONSE:**

- a. Confirmed, if this is referring to Cell E28 in USPS-LR-L-126, R2006-1 Outside County.xls. 'Piece Discounts.'
- b. Confirmed, if this is referring to Cell D14 in USPS-LR-L-126, R2006-1 Outside County.xls, 'Piece Discounts.'
- c. Confirmed, if this 2 percent is derived by subtracting Cells E27 (5-digit barcoded letter size) and E28 (5-digit barcoded flats) from Cell D13 (total 5-digit).

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,  
AND THE ALLIANCE OF NONPROFIT MAILERS

MPA/USPS-T35-4, Page 2 of 3

d. Presumably, mailers comail, at least in part, in order to obtain lower workshare rates. That includes lower presort rates, such as moving down a presort tier from 5-digit automation rates to carrier route rates.

e. That depends upon the point of reference. Most pieces are carrier route sorted already. In that sense, comailing benefits come from areas other than presort.

However, in terms of the number of pieces, the second largest category is 5-digit automation flats. In that sense, there exists the most potential, in terms of presort, to move those pieces from the second most populated piece rate to a lower piece rate category. While the vast majority of *pieces* fall within the two categories discussed above, the vast majority of *publications* do not rely on those presort tiers nearly as much. For those publications, there is significant potential elsewhere.

f. Rate design is not only about designing the current rates but also anticipating future changes / adjustments. It is a balancing act which requires us to be mindful of the possible rate impact on mailers, the overall rate increase, and the future processing environment. The ongoing initiatives and efforts might lead to a future processing environment where the importance of Carrier Route Basic presort may be less emphasized. The Postal Service would like to provide incentives for mail to be presorted to the Carrier Route Basic level (at the current passthrough of 148 percent shown in my worksheet "piece discount 2," Cell D14), but not to offer something which later has to be taken back or drastically reduced. Therefore, it is more practical to maintain the link between the 5-Digit Nonautomation rate and the Carrier Route Basic rate. The

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,  
AND THE ALLIANCE OF NONPROFIT MAILERS

MPA/USPS-T35-4, Page 3 of 3

proposed passthrough on 5-Digit Automation flats is the highest passthrough of a cost savings I am aware of. If one were focused on increasing the gap between the two prices, a rationale could be readily provided that the most appropriate mechanism is to decrease that very high passthrough rather than to increase the one for carrier route. In the end, I believe that my proposal properly seeks to balance the measured costs, impact on customers, and future operating environment.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,  
AND THE ALLIANCE OF NONPROFIT MAILERS

**MPA/USPS-T35-5** Please refer to Section IV.A of your testimony, which discusses the container charge. Assume that a publisher has 400 pounds of Periodicals Outside County Carrier Route flats for each of the following four ZIP Codes: 200AA, 200BB, 200CC, and 200DD.

- a. Please confirm that such a publisher has the option of entering this mail on four 5-Digit pallets. If not confirmed, please explain fully.
- b. Please confirm that the publisher has the option of entering this mail on one 3-Digit pallet. If not confirmed, please explain fully.
- c. Please confirm that under the proposed rates entering this mail on four 5-Digit pallets (as opposed to one 3-Digit pallet) would increase the publisher's postage. If not confirmed, please explain fully.

**RESPONSE:**

- a. Confirmed.
- b. Not confirmed. It is my understanding that three-digit pallets are optional but only for specified ZIP Codes for which they are deemed to have value. It is my understanding that, as specified in Labeling List L002 (which can be found at <http://pe.usps.com/text/dmm300/L002.htm>), the 3-digit Code 200 is marked with an "N" which indicates that 3-digit pallets for this ZIP Code are prohibited.
- c. Not confirmed. Aside from the technicality raised in my response to part b, I cannot confirm how the postage is going to change without specific knowledge about the mailing, such as the number of pieces, editorial percentage, and the dropship profile.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,  
AND THE ALLIANCE OF NONPROFIT MAILERS

**MPA/USPS-T35-6** Please refer to page 6 of PRC Order No. 1446, which states that  
“progress towards a more cost-based structure is both possible and necessary to  
increase efficiencies in the Periodicals rates.” Do you agree with the quoted  
statement? If not, please explain your response fully.

**RESPONSE:**

Yes, I agree.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,  
AND THE ALLIANCE OF NONPROFIT MAILERS

**MPA/USPS-T35-7** Please refer to lines 8 through 13 on page 11 of your testimony where you state:

I propose replacing the per-piece pallet discounts and the experimental co-palletization discounts with a combination of the introduction of editorial pound dropship rates, the increased per piece dropship discounts, and the container rate discussed above in the pound rate section. An assessment of the impact makes me expect that mailers would have comparable if not better incentives under these proposals.

Does your statement that “[a]n assessment of the impact makes me expect that mailers would have comparable if not better incentives under these proposals” mean that, on average, your proposal only marginally increases the postage incentive to palletize and dropship periodicals? Please explain your response fully.

**RESPONSE:**

No, my statement is limited to mailers currently participating in the co-palletization experiment, and does not mean that my proposal aims to only marginally increase the postage incentive to palletize and dropship periodicals. In the process of rate design, I applied the proposed rates to a number of the postage statements of the co-palletized or co-mailed magazines to assess the postage impact. The purpose is to see if these publications would receive comparable, if not greater, incentives to continue efficient mail preparation and dropshipping, under the proposed rates. The incentives under the proposal vary, according to the characteristics of the publication itself and how it is prepared and mailed. Overall, my assessment shows “... that mailers would have comparable if not better incentives under these proposals.”

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-8.** Please refer to lines 7 through 8 on page 7 of witness Mayes' testimony (USPS-T-25), where she states, regarding her estimate of the Periodicals non-transportation destination entry cost savings: "The savings estimates generated in Appendix F of library reference USPS-LR-L-88 are calculated relative to Zone 1&2 Periodicals mail processing costs." Assume that a goal of Periodicals Outside County rate design were to reflect in rates the non-transportation destination entry cost savings relative to the mail processing costs of Zones 1-8, not Zones 1 and 2.

- (a) Please confirm that the rate design goal specified above could, in theory, be achieved by using non-transportation destination entry cost savings relative to average Zones 1-8 mail processing costs, rather than relative to Zones 1&2 mail processing costs, in developing destination entry rates and discounts. If not confirmed, please explain fully.
- (b) Please confirm that the rate design goal specified above could, in theory, be accomplished by estimating the average "bulk transfer" costs (which are the non-transportation costs that witness Mayes estimates are avoided by destination entry) by zone, and building these costs into rates individually for each zone. If not confirmed, please explain fully.
- (c) Please confirm that, all else being equal, the option outlined in subpart (a) of this interrogatory would result in lower rate increases for the higher zones than would the option outlined in subpart (b) of this interrogatory. If not confirmed, please explain fully.
- (d) Please confirm that the Standard Mail non-transportation destination entry cost avoidance is calculated relative to all origin-entered Standard Mail, not relative to just Zones 1&2 origin-entered Standard Mail. If not confirmed, please explain fully.

**RESPONSE:**

- (a) In theory, this could be done.
- (b) This might not be as easily achieved. My understanding is that the number of bulk transfers by zone for Periodicals may not be an easy set of numbers to develop, because unlike, for instance, Parcel Post, which follows a relatively simple and straightforward series of facilities (e.g., from an OSCF to OBMC to DBMC to DSCF to DDU), the routes for some periodicals vary depending on their destination and service performance concerns. Using zones 1-2 to determine destination entry cost savings

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T35-8, Page 2 of 3

helps, first, by limiting the number of facilities and dock transfers relative to the dropshipped periodicals, and second, by avoiding the need to figure out how many transfers take place for mail from higher zones. Using higher zones to determine destination entry cost savings would change the nature of the zone structure from one that reflects essentially transportation costs, to one that is both transportation and mail processing oriented. While that may not be a negative change, it would appear that if one were to deduct mail processing savings from zone costs, one should include those same costs in the baseline calculation for the zones. All of that is to say that while conceptually this might have some appeal, it is a bit more daunting than a cursory review might suggest.

(c) Not confirmed. With the approach in part (a), the non-transportation destination entry cost savings is taken off of the average cost over all zones, whereas in part (b), there may not be significant differences in the number of transfers for pieces originating from different zones, such as Zone 7 rather than Zone 8.

(d) Confirmed that Standard Mail is not zoned, so the destination entry cost savings are calculated against origin-entry mail costs. Periodicals, however, is zoned, with incentives provided to mail that is entered deeper into the system by virtue of the zoned rate structure. This distinction gives rise to a rate design issue. The origin entry Standard Mail includes mail traveling, hypothetically, 50 miles to 2500 miles, and the resulting rates reflect the spectrum of Standard Mail. Consequently, the discount is appropriately built upon an average for all the mail. However, the same is not the case for Periodicals, which has rates for non-destination mail traveling 50 to 150 miles (zones

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T35-8, Page 3 of 3

1 and 2). Now if we deduct the cost for mail traveling short distances from a national average cost for mail traveling 50 to 2500 miles, we could get anomalous results.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-9.** Please refer to your response to MPA/USPS-T35-1(b), where you state, "Any pallet that contains Periodicals mail is subject to the container charge." Please confirm that pallets containing only Periodicals Within County mail would not be subject to the container charge. If not confirmed, please explain fully.

**RESPONSE:**

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-10.** Please refer to USPS-LR-L-126, R2006-1 Outside County.xls and your response to MPA/USPS-T35-1(f), where you state:

The vast majority of Periodicals mail is in sacks or pallets. Nevertheless, the container rate is an integral part of Periodicals pricing and all Outside County mailings will be subject to it, including those that are not in sacks or on pallets. We are currently reviewing the other possible containerization methods and how the 85-cent container rate will apply.

Have you included container-rate revenue for containers other than sacks and pallets in your TYAR revenue estimate? If so, please explain how you calculated container-rate revenue for containers other than sacks and pallets.

**RESPONSE:**

My TYAR estimate of container rate revenue includes revenue from containers other than sacks and pallets. My container data can be found in USPS-LR-L-126, sheet "Container." The source of the container data is Table 3 in USPS-LR-L-91, Periodicals Mail Characteristics Study. In that table, the number of containers has been grouped into "pallet" and "sack and other". "Sack and other" includes sacks and the other types of containers, as described in witness Loetscher's response to TW/USPS-T28-7(c-d). The revenue for containers other than sacks and pallets has not been calculated separately. In USPS-LR-L-126, sheet "Container," the total container count (including pallets, sacks, and other types of containers) has been used to derive the aggregate container rate revenue.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-11.** Please refer to the table you provided in response to MPA/USPS-T35-2(b) and your response to MPA/USPS-T35-2(c), where you state that "the average weight of a Ride-Along piece is 1.45 ounces."

- (a) Please confirm that the Periodicals Outside County advertising pound revenue per piece (at proposed rates) for 1.45 ounces of advertising with the FY 2005 zone distribution of Ride-Along pieces is 2.9 cents. If not confirmed, please provide the correct figure and underlying calculations.
- (b) Please confirm that the advertising pound revenue (at proposed rates) for 3.3 ounces of advertising with the FY 2005 zone distribution of ride-along pieces is 6.6 cents per piece. If not confirmed, please provide the correct figure and underlying calculations.
- (c) Do you believe that the proposed advertising pound rates cover the weight-related cost of advertising pounds? If not confirmed, please explain fully.

**RESPONSE:**

(a) Not confirmed. The table provided in my response to MPA/USPS-T35-2(b) refers to the zone distribution by piece of ride-along pieces, not zone distribution by weight. I do not think the advertising pound rate can be accurately assessed by applying the pound rate to a piece distribution based on average piece weight. Moreover, as I stated in my response to MPA/USPS-T35-2, the rate for ride-along pieces is a piece rate, because these pieces are sometimes unlike what usually qualifies as advertising pounds. Finally, existing concerns from both the mail processing and delivery perspectives (see my response to MPA/USPS-T35-12) further differentiate ride-along pieces from average advertising pounds.

(b) Please see my response to part (a).

(c) I do not know. A guiding principle for Periodicals rate design is that costs be covered. Given the Periodicals rate design methodology, we ensure that the revenue covers the overall cost, and the price signals sent by particular rates encourage

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T35-11, Page 2 of 2

efficiency. Transportation cost is certainly one component of "the weight-related cost," but not the only component. My understanding is that there is neither weight-related cost specifically developed for advertising pounds, nor a requirement that the proposed advertising pound rates cover the weight-related cost of advertising pounds. In any event, the Periodicals cost coverage is calculated at the subclass level, not at finer subgroup levels such as advertising pounds or editorial pounds.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-12.** Please refer to lines 12 through 15 on page 9 of witness Taufique's testimony in Docket No. MC2000-1, where he stated:

Second, the only potential additional cost [of Ride-Along pieces] would be caused by the additional weight. Piece-related costs, either in mail processing or delivery, are not expected to change due to the physical requirements discussed under 'Eligibility.'

Do you have any reason to disagree with the quoted statement? If so, please explain your rationale fully.

**RESPONSE:**

I do have additional information relevant to the quoted statement. In the years since witness Taufique's testimony in Docket No. MC2000-1, we have gained experience with ride-along pieces. It is my understanding that there are operational concerns for ride-along pieces, from both mail processing and delivery perspectives.

Assuming that the host piece is uniformly thick, with the address unobstructed by a ride-along piece, and the piece remains in the same processing category with or without a ride-along, it can include a ride-along piece. It is my understanding that a piece containing a ride-along is more likely to use polywrap. Publications with polywrap tend to be less desirable than bound publications without polywrap, since polywrap reflects light and tends to make addresses difficult to read. From the delivery perspective, I understand that ride-along pieces (e.g. CDs and DVDs) may make the host flats more rigid, particularly when fastened to the center of the flats, making it more difficult to fold the piece for easier delivery.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

REVISED AUGUST 9, 2006

**MPA/USPS-T35-13.** Please refer to your response to MPA/USPS-T35-7, where you state:

In the process of rate design, I applied the proposed rates to a number of the co-palletized or co-mailed magazines to assess the postage impact. The purpose is to see if these publications would receive comparable, if not greater, incentives to continue efficient mail preparation and dropshipping, under the proposed rates.

(a) For each of the co-mailed magazines you analyzed, by what percentage would the postage "incentive" to co-mail (i.e., the postage difference between mailing the magazine as a solo mailing and as part of a co-mail pool) increase under your proposal? If you did not analyze the postage difference between mailing the magazine as a solo mailing and as part of a co-mail pool, how did you determine whether "these publications would receive comparable, if not greater, incentives to continue efficient mail preparation and dropshipping, under the proposed rates."

(b) For each of the co-palletized magazines you analyzed, by what percentage would the postage "incentive" to co-palletize (i.e., the postage difference between mailing the magazine as a solo mailing and as part of a co-palletization pool) increase under your proposal? If you did not analyze the postage difference between mailing the magazine as a solo mailing and as part of a co-palletization pool, how did you determine whether "these publications would receive comparable, if not greater, incentives to continue efficient mail preparation and dropshipping, under the proposed rates."

(c) In your analysis, how did you determine the number of sacks that each magazine would use if entered as a solo mailing? Please explain fully.

(d) In your analysis, how did you determine where the magazine would be entered if entered as a solo mailing? Please explain fully.

**RESPONSE:**

(a-d) Based on my response to MPA/USPS-T35-28, I do not have sufficient data to estimate the percentage change in incentives for palletization and dropshipping, between the current rates and the proposed rates, for particular publications.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-14.** Please refer to your response to MPA/USPS-T35-12, where you state: "I understand that ride-along pieces (e.g. CDs and DVDs) may make the host flats more rigid."

(a) Does this statement relate only to ride-along pieces that are CDs or DVDs or does it apply to other ride-along pieces? If the latter, please explain fully and identify the other kinds of pieces to which the statement also applies.

(b) In FY 2005, what percentage of ride-along pieces were CDs and DVDs?

**RESPONSE:**

(a) The above statement is not necessarily limited to CDs or DVDs, although it is my understanding that CDs or DVDs make up the bulk of the rigid ride-along pieces. It is also my understanding that no description of ride-along pieces is required at acceptance. Neither am I aware of any system collecting data on the types of ride-along pieces. Therefore, I cannot provide a full list of the kinds of pieces to which the statement also applies.

(b) As mentioned in my response to part (a), I am not aware of any system collecting data on the types of ride-along pieces. So I do not know what percentage of ride-along pieces were CDs and DVDs in FY 2005. However, it is my understanding that the Postal Service evaluated hundreds of samples during the experimental phase of ride-along pieces, and found that about 68 percent of the sampled pieces were CDs and DVDs.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-15.** Please refer to your responses to MPA/USPS-T35-1 and MPA/USPS-T35-9, where you explain that the Postal Service is proposing to apply the entire container charge to every container that contains any Periodicals Outside County pieces. Why is the Postal Service proposing to apply the entire container charge to containers that contain both Periodicals Outside County pieces and other classes of mail (e.g., Periodicals Within County mail or Standard Mail)?

**RESPONSE:**

As stated in my testimony, on pages 4 and 5, the container rate is meant to send an appropriate price signal to encourage better mail preparation and improve Periodicals efficiency. The container rate would apply to a container with any amount of Periodicals Outside County mail in it. For example, the Postal Service does not plan to distinguish between a container with 1000 Outside County pieces only, and a container with 1000 Outside County pieces and also some Within County or Standard Mail pieces. Just like the container rate, the ability to prepare a pallet with mixed classes is intended to encourage *more efficient mail preparation* which can benefit both the mailer and the Postal Service. The modest 85 cent charge per pallet is not expected to undermine these benefits of co-palletization of mixed classes. In any event, the container charge is an integral part of the pricing for Outside County Periodicals, and should apply to all mailings, regardless of whether they are prepared in conjunction with "non-Outside-County" pieces.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-16.** This question refers to:

- Worksheet "Container" in USPS-LR-L-126, REV 7-13-2006 LR 126 Outside County Revised.xls, which shows 41.64 pieces per sack.
- USPS-LR-L-88, Appendix F, Table 5, and worksheet "Parameters" in USPS-LR-L-85, 6-8-05-LR-L-85-Revised.xls, which show 45.11 pieces per sack.

Please explain which of these figures is correct for the Test Year.

**RESPONSE:**

The two numbers in question are two different estimates of how the 24-piece minimum rule will affect average sack size. It is my understanding that the 45.11 pieces per sack in LR-L-88 was derived by calculating the average number of pieces in sacks that currently contain 24 or more pieces. The 41.64 pieces per sack figure in LR-L-126 was calculated using a slightly different approach: take the total number of sacks, assume 65 percent of the skin sacks go away under the 24-piece rule, and then calculate the average number of pieces for those remaining sacks. In my mind, both are reasonable estimates for use in Test Year calculations.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

REVISED AUGUST 9, 2006

**MPA/USPS-T35-17.** This question is a follow-up to your July 14 response to MPA/USPS-T35-13, where you calculate the percentage increase in the incentive for twelve publications to co-palletize under your rate proposals. The January 12, 2006, issue of the Federal Register contains a USPS notice entitled "Sack Preparation Changes for Periodicals Mail." The notice states in part:

**SUMMARY:** This final rule adopts new mailing standards for Periodicals mail prepared in sacks. The standards include two new types of sacks—a 3-digit carrier routes sack and a merged 3-digit sack—and a new minimum of 24 pieces for most other sacks.

**DATES:** *Effective Date:* May 11, 2006.

(a) Please confirm that you performed the analysis described in your response to MPA/USPS-T35-13 before May 11, 2006. If not confirmed, please explain fully.

(b) Please confirm that you based your analysis on mailings that were entered before implementation of the rule entitled "Sack Preparation Changes for Periodicals Mail." If not confirmed, please explain fully.

(c) Please confirm, holding all else equal, that, under your proposal, the per-piece incentive to co-palletize publications in small sacks (measured in number of pieces) is larger than the per-piece incentive to co-palletize publications in large sacks (measured in number of pieces).

(d) Please confirm that the "Sack Preparation Changes for Periodicals Mail" will increase the average size (measured in number of pieces) of Periodicals sacks.

(e) For each of the publications you analyzed, please provide the average number of pieces per sack (if mailed as a solo mailing) based on the Postage Statement data used in your analysis. Please provide the information in the format specified in the table below.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

REVISED AUGUST 9, 2006

MPA/USPS-T35-17, Page 2 of 3

Percentage Increase in Incentive to Co-Palletize	Average Pieces Per Sack (Solo Mailing)
2	
5	
34	
35	
35	
39	
40	
40	
47	
48	
54	
56	

(f) Please provide your best estimate of the percentage increase in the incentive to co-palletize for each of the twelve publications, based on the assumption that each publication's sacks contain the same number of pieces as an average Test Year sack of Periodicals Outside County mail.

(g) Please provide your best estimate of the percentage increase in the incentive to co-palletize for each of the twelve publications using Postage Statement information for a mailing that was prepared according the recently-implemented "Sack Preparation Changes for Periodicals Mail" rule.

(h) Please provide sufficient information from PS Forms 3541 and 3541-X for each of the 12 publications analyzed to allow replication of the results provided in your response to MPA/USPS-T35-13. You may replace the name and other identifying information about the publisher and publication with code names or letters (e.g., "Publication A") to the extent necessary to conceal the identity of the mailer and publication.

(i) Please provide sufficient information from PS Forms 3541 and 3541-X for each of the 12 publications analyzed to allow replication of the results you provide in response to subparts (f) and (g) of this interrogatory. You may replace the name and other identifying information about the publisher and publication with code names or

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

REVISED AUGUST 9, 2006

MPA/USPS-T35-17, Page 3 of 3

letters (e.g., "Publication A") to the extent necessary to conceal the identity of the mailer and publication.

(j) Please confirm that you have not calculated the percentage change in the "incentive to co-mail" under your proposal for any publications. If not confirmed, please explain and provide your calculations.

**RESPONSE:**

(a-b, e) Please see my revised response to MPA/USPS-T35-13, filed August 9, 2006.

(c-d) Confirmed.

(f-i) Based on my response to MPA/USPS-T35-28, I do not have sufficient data to estimate the percentage change in incentives for palletization and dropshipping, between the current rates and the proposed rates, for particular publications.

(j) Confirmed. The impact on co-mailed publications is expected to be similar to that on the co-palletized ones, in terms of palletization and dropshipping. Of course, co-mailing offers advantages beyond palletization and dropshipping, such as finer presort. But I did not analyze any co-mailed publications.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-18.** Please refer to the version of worksheet "Discounts" in USPS-LR-L-126, REV 7-13-2006 LR 126 Outside County Revised.xls. Please confirm that the unit mail processing cost estimates in this worksheet do not reflect the errata to USPS-LR-L-43 filed on June 28, 2006.

**RESPONSE:**

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-19.** Please refer to the following statements in the document entitled "Summary of Changes to LR-L-126," which is attached to the notice of errata to Library Reference L-126 filed by the Postal Service on July 13, 2006:

1. Page 2 – "However, in worksheet "Piece Discounts", cell C3, "required revenue", the total fees used as an input to the formula has been held at the original 18,072,000, in order to maintain the proposed rates."
2. Page 3 – "The original ride-along revenue is used as an input in the formula to derive "required revenue" (cell C3) in worksheet "Piece Discounts," in order to maintain the proposed rates."
3. Page 5 – "Revised TYBR and TYAR cost [sic] numbers (see witness Waterbury's errata filed on July 11, 2006) have been included in worksheet "FY 2008 Summary".... These updated costs are included only in the final financial summary to show the adjusted cost coverages for both Outside County and Within County. They are not included in the rate design inputs, so that the proposed rates are maintained."

As the above statements from the "Summary of Changes to LR-L-126" document indicate, you have "held" some figures at their original values "in order to maintain the proposed rates."

(a) Please provide a list of all cells in which you have "held" values or formulae at original values "in order to maintain the proposed rates."

(b) For each of the cells listed in subpart (a) of this interrogatory, please provide the corrected value or formula.

**RESPONSE:**

(a-b) The cells in which I have held values or formulae at original values in order to maintain the proposed rates have been listed in "Summary of Changes to LR-L-126," which is attached to the notice of errata to Library Reference L-126 filed on July 13, 2006. These cells are:

- In worksheet "Piece Discounts", cell C3, "required revenue", the total fees used as an input to the formula has been held at the original 18,072,000, in order to maintain the proposed rates. The revised fees amount is 19,159,320. Also in cell

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T35-19, Page 2 of 2

C3, the original ride-along revenue is used as an input in the formula to derive required revenue by using the current ride-along rate of \$0.131, not the proposed rate of \$0.155.

The correct formula in cell C3 in worksheet "Piece Discounts" is:  $=((\text{'Rate Design Input'!C10} * \text{'Rate Design Input'!C12}) - \text{'Rate Design Input'!C14} - \text{'Rate Design Input'!C28} * \text{Fcst!08!C9} * \text{Hardwired \#s!D5}) / \text{Rev.Adj+Ed.Cont!D12}$ .

- At stated in the "Summary of Changes to LR-L-126," revised TYBR and TYAR cost numbers have been included in worksheet "FY 2008 Summary". These updated costs are included only in the final financial summary to show the adjusted cost coverages for both Outside County and Within County. If they were included in the rate design inputs, the value in cell C11 in worksheet "Rate Design Input" would be 2,250,111,030.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-20.** Please refer to POIR No. 6, Question 1, which requests estimates of current and proposed per-piece postage for seven publications. For each of the publications, please provide Postage Statement information in sufficient detail to allow the replication of your results.

**RESPONSE:**

The detailed postage calculation is available in the spreadsheets filed on August 3, 2006, with the revised response to POIR No.6, Question 1.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-22.** Please refer to USPS-LR-L-126, REV 7-13-2006 LR 126 Outside County Revised.xls, worksheet "Pound Data\_Adv, cell E57, which contains the formula "E59-D59-(E48-E49)."

(a) Please confirm that the purpose of this formula is to calculate the transportation cost (less dropship discount) per pound for DSCF-entered Periodicals. If not confirmed, please explain fully.

(b) Please confirm that the DSCF transportation cost per pound is calculated by subtracting the Zones 1&2 distance-related transportation cost per pound (D59) from the total Zones 1&2 transportation cost per pound (E59). If not confirmed, please explain fully.

(c) Please confirm that the DSCF dropship discount subtracted by the formula in cell E57 from the DSCF transportation cost per pound equals the DSCF dropship discount (E48) net of the DADC dropship discount (E49).

(d) Please confirm that the DSCF dropship cost avoidance (from which the DSCF dropship discount is calculated) was calculated relative to Zones 1&2 Periodicals. If not confirmed, please explain fully.

(e) Please explain fully why the formula in cell E57 subtracts the DSCF dropship discount (net of the DADC dropship discount) from DSCF transportation costs, rather than subtracting the *entire* DSCF dropship discount from DSCF transportation costs.

**RESPONSE:**

The rate design for the advertising pounds, as shown in worksheet "Pound Data\_Adv," has four major steps:

1. Allocate the distance-related transportation cost using pound miles to all rate cells from DADC to Zone 8.
2. Add non-distance related transportation cost to all rate cells from DSCF to Zone 8.
3. Subtract handling costs incrementally at each dropship cell, starting with zones 1&2 to derive DADC, DSCF, and DDU rates.
4. Add the residual revenue requirement to each rate cell.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T35-22, Page 2 of 2

(a-b) In this light, "E59-D59" in the formula "E59-D59-(E48-E49)" refers to (and can be replaced by) cell C43, which is the non-distance related transportation cost per pound.

The purpose of this formula is to subtract the avoided handling cost from the non-distance related transportation cost, at the DSCF level.

(c) Confirmed that the DSCF dropship discount subtracted by the formula in cell E57 from the non-distance related transportation cost per pound equals the DSCF dropship discount (E48) net of the DADC dropship discount (E49).

(d) Confirmed.

(e) Please see the opening paragraph to this response.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-25.** This is a follow-up to your July 19 response to POIR No. 6, Question 1. Please refer to pages 2 and 3 of the attachment to your response, which calculate current and proposed postage for a Nonprofit and a Classroom publication.

(a) Please confirm that Nonprofit and Classroom publications receive a 5% discount on postage (excluding advertising pound and ride-along postage). If not confirmed, please explain fully.

(b) Please confirm that pages 2 and 3 of your attachment do not take this discount into account. If not confirmed, please explain fully.

(c) Please provide a revised response to POIR No. 6, Question 1, that correctly calculates postage for these publications.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) Please see the revised response to POIR No. 6, Question 1, filed on August 3, 2006.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-26.** This is a follow-up to your July 19 response to POIR No. 6, Question 1. Please refer to page 4 of the attachment to your response, which calculates current and proposed postage for a Science of Agriculture publication.

(a) Please confirm that the postage calculation on this page calculates postage at regular rates, not Science of Agriculture rates. If not confirmed, please explain fully.

(b) Please provide a revised response to POIR No. 6, Question 1, that correctly calculates postage for the Science of Agriculture publication.

**RESPONSE:**

(a) Confirmed.

(b) Please see the revised response to POIR No. 6, Question 1, filed on August 3, 2006.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-27.** This is a follow-up to your response to MPA/USPS-T35-22 and to USPS-LR-L-126, REV 7-13-2006 LR 126 Outside County Revised.xls, worksheet "Pound Data\_Adv."

(a) Please confirm that USPS-LR-L-126 allocates 1.2 cents per pound in distance-related transportation costs to DADC-entered mail. If not confirmed, please explain fully.

(b) Please confirm that USPS-LR-L-126 allocates no distance related transportation costs to DSCF-entered mail. If not confirmed, please explain fully.

(c) Please confirm that USPS-LR-L-126 develops a 0.3-cent per pound DADC dropship discount (based upon a 50% passthrough of the DADC nontransportation cost avoidance). If not confirmed, please explain fully.

(d) Please confirm that USPS-LR-L-126 develops a 1.5-cent per pound DSCF dropship discount (based upon a 50% passthrough of the DSCF nontransportation cost avoidance). If not confirmed, please explain fully.

(e) Please confirm that, based upon your response to the above subparts, the advertising pound rate difference between DADC and DSCF entry should be 2.4 cents (1.2 cents + 1.5 cents - 0.3 cents). If not confirmed, please explain fully.

(f) Please confirm that USPS-LR-L-126 calculates a 2.1-cent advertising pound rate difference between DADC and DSCF entry. If not confirmed, please explain fully.

(g) Taking into account your response to the above subparts, please explain why the 2.1-cent advertising pound rate difference between DSCF and DADC entry calculated in USPS-LR-L-126 is accurate.

**RESPONSE:**

(a-d) Confirmed.

(e) Not confirmed. It seems that the 0.3-cent DADC dropship discount may have been double counted in your calculation. Please see the table below:

	Distance-Related Transportation Cost	Non-Distance Related Transportation Cost	Residual Cost	Handling Cost Savings	Rate
DADC	0.012	0.033	0.209	-0.003	0.251
DSCF	0.000	0.033	0.209	-0.012	0.230

(f) Confirmed.

(g) Please see my response to (e).

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**MPA/USPS-T35-28.** This is a follow-up to your response to MPA/USPS-T35-17. Please refer to the spreadsheet provided in response to MPA/USPS-T35-17(i).

(a) Please confirm that, in the "After" scenario, the spreadsheet shows that the 12 publications will use a total of 1178 containers to mail 250,204 pieces, which translates into approximately 212 pieces per container. If not confirmed, please provide the correct figures.

(b) Please confirm that the average pieces per container for co-palletized publications will generally be significantly higher than 212. If not confirmed, please explain fully.

(c) Please explain (i) the source of your data on the number of containers for the "after" scenario; (ii) whether the source takes into account the effect of the May 11 rule requiring 24 pieces in most sacks; and (iii) any other reasons why the source may overstate the number of containers for the twelve publications in the "after" scenario.

**RESPONSE:**

(a-b) Confirmed.

(c) The data come from mailing statements for the publications and do not reflect the 24-piece rule, since the mailings were prior to the rule change. The source may overstate the number of containers for the twelve publications in the "after" scenario, because the container count reflects the containers for the entire co-palletization pool, while the piece count reflects only one publication. Therefore, while I still believe that the proposed Periodicals rates would provide at least as much of an incentive to co-palletize as the current rates, I no longer believe I have data that would allow me to calculate percentage increases in the incentives for particular publications, like the percentage figures provided in my responses to MPA/USPS-T35-13 and 17.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-1** On page 2 of your testimony, (USPS-T-35) in Table 1, you show TYAR Cost Coverage for Outside County Periodicals of 1.060 and for Inside County Periodicals of 1.034. Please confirm that in this Table the cost coverage proposed for Within County Periodicals is 56.7% of the cost coverage proposed for Outside County. Please explain fully any answer other than a confirmation.

**RESPONSE:**

I can confirm that this arithmetic is correct when using the data from the unrevised Table 1. However, the relevant comparison is between the Within County Cost coverage in Table 1 and the Outside County cost coverage in Table 4. In the revised testimony filed on July 13, 2006, the revised Table 4 shows a TYAR markup for Outside County Periodicals (before Nonprofit and Classroom discounts) of 7.2 percent. The revised Table 1 shows a TYAR markup for Within County of 3.6 percent, which is 50 percent of the markup proposed for Outside County. Please see the Postal Service's response to Notice of Inquiry No.1 (filed on June 16, 2006) for the rationale for using this before-discount approach.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-2** On page 2 of your testimony, (USPS-T-35) in Table 1, you show TYAR Cost Coverage for Outside County Periodicals of 1.060 and for Inside County Periodicals of 1.034. Please explain fully how this proposed cost coverage for Within County Periodicals conforms with the standard for Within County that the markup for Within County "shall be equivalent to half the markup of Outside County Periodicals." If this cost coverage proposal does not conform to this standard for Within County, please so indicate.

**RESPONSE:**

Please see my response to NNA/USPS-T35-1.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-3** On page 3 of your testimony, (USPS-T-35) in Table 4, you show a total of Nonprofit and Classroom Discounts of \$18,136,602. Please confirm that this amount represents discounts provided to Nonprofit and Classroom mailers which therefore are never collected by the Postal Service. Explain any answer other than a confirmation.

**RESPONSE:**

Confirmed that, in the revised testimony filed on July 13, 2006, Table 4 shows a total of Nonprofit and Classroom discounts of \$18,016,075, which represents discounts provided to Nonprofit and Classroom mailers which are not collected by the Postal Service.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-4** On page 6 of your testimony, (USPS-T-35) at lines 22-23, you propose a 37-63 split between revenue to be raised from pounds and pieces in Outside County Periodicals. Please explain fully your reasons for proposing this particular split.

**RESPONSE:**

As mentioned on pages 6-7 in my testimony, "[t]his slight deviation from the traditional 40-60 split is moving towards the long-observed trend that the piece side contributes more than 60 percent of mail processing and delivery costs. See Docket No. R2000-1, USPS-T-28, pages 18-19b. The Postal Service believes this design better reflects actual cost incurrence."

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-5** On page 6 of your testimony, (USPS-T-35) at line 23, you reference "the traditional 40-60 split" as between revenue to be raised from pounds and pieces in Outside County Periodicals. Please provide all supporting documents or references upon which you relied in determining that 40-60 was the "traditional" split for Outside County Periodicals.

**RESPONSE:**

The term "traditional" was used in the Commission's Opinion in Docket No. R2001-1, Page 109, footnote 67: "Taufique's Periodicals rate design retains the traditional "60/40" split between pieces and pounds for purpose of generating subclass revenue ...." Please also see PRC Op., R87-1, at 527-28; PRC Op., R90-1, at V-113-115. PRC Op., R94-1, at V-53-54; PRC Op., R97-1, at 526-27; PRC Op., R2000-1, at 434-35; and Docket No. R2001-1, USPS-T-34 at 5.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-6** On pages 6-7 of your testimony, (USPS-T-35) beginning at line 23 of page 6, you reference the "long-observed trend that the piece side contributes more than 60 percent of mail processing and delivery costs." With respect to this statement, please provide all supporting documents or references that you relied on in making this statement other than the reference to USPS-T-28 in R2000-1 that you cite at line 2 of page 7.

**RESPONSE:**

The reference I relied upon is on pages 18-19b of witness Daniel's testimony (USPS-T-28) in Docket No. R2000-1, section VII, titled "Results of Impact of Weight on Periodicals Costs".

Although they are not the basis of my proposal, I understand that previous dockets contained material supporting a greater than the 60 percent figure. See Docket No. R84-1, USPS-T-16, at 10-24; Docket No. R90-1, DJ-T-1 at 14-22, Tr. 27/13452-60; ABP-RT-1 at 4, 6-7 (Tr. 44/23355, 23357-58); PRC Op., R94-1, at V-54 (par. 5171), and PRC Op., R2000-1, at 435.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-7** On page 14 of your testimony, (USPS-T-35) at lines 17-18, you state that the overall increase proposed for Within County Periodicals in this case "is balanced" by the rate reduction for Within County in Docket No. R2005-1. Please explain fully why you believe that the rate reduction afforded to Within County in Docket No. R2005-1 has any relevance in this proceeding whatsoever.

**RESPONSE:**

It is my understanding that when considering the impact on mailers of a price increase, it is important to consider the increase in the context of previous price changes. The fact that the rates resulting from Docket No. R2005-1 represented a rate decrease for Within County, while rates for all other subclasses increased, is certainly worth noting. The effective overall increase since Docket No. R2001-1 is not as great as the comparison of current to proposed rates in this filing would indicate.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-8** On page 14 of your testimony, (USPS-T-35) at lines 17-18, you state that the overall increase proposed for Within County Periodicals in this case "is balanced" by the rate reduction for Within County in Docket No. R2005-1. With respect to this statement, please confirm that in R2005-1, the Postal Service had proposed an even bigger rate decrease for Within County Periodicals than the rate decrease that was ultimately adopted by the Commission. Explain fully any answer other than a confirmation.

**RESPONSE:**

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-9** On page 14 of your testimony, (USPS-T-35) at lines 17-18, you state that the overall increase proposed for Within County Periodicals in this case is higher than the increase for the Outside County subclass "because of different Within County costs." Please explain fully what you mean by "different" in this statement and identify each cost category or type of cost that you believe is "different" for the Within County sub-class as compared to the Outside County subclass.

**RESPONSE:**

By "different" I did not intend to refer to specific categories of costs, but rather the fact that separate costs are provided for the distinct rate design framework used for Within-County prices. See also USPS-T-46 at 35-37, for discussion of Within-County costs

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-10** On page 14 of your testimony, (USPS-T-35) at lines 19-20, you state that "Within County discounts are generally based on cost avoidance derived for the Outside County subclass with appropriate passthroughs." With respect to this statement, please explain fully why you believe that cost avoidance estimates derived from the Outside County subclass are appropriate for measuring costs avoided in the Within County subclass.

**RESPONSE:**

Since I do not have a cost avoidance study for Within County, the best alternative available is from the Outside County subclass. Therefore, "Within County discounts are generally based on cost avoidance derived for the Outside County subclass with appropriate passthroughs."

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-11** On page 14 of your testimony, (USPS-T-35) at lines 19-20, you state that "Within County discounts are generally based on cost avoidance derived for the Outside County subclass with appropriate passthroughs." With respect to this statement, please confirm that as a general matter the cost avoidance passthroughs that you propose for Outside County periodicals differ from the cost avoidance passthroughs that you proposed for Within County in this case. Explain, any answer other than a confirmation.

**RESPONSE:**

Confirmed that, as a general matter, the cost avoidance passthroughs proposed for Outside County Periodicals differ from the cost avoidance passthroughs that were proposed for Within County. The rate design objectives sometimes dictate that the rate designer use the flexibility that comes with having two separate subclasses, and choose different passthroughs for different subclasses. In many instances, the passthroughs are chosen, at least in part, to mitigate the impact of rate increase on customers. Please see my response to NNA/USPS-T35-15

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-12** On page 14 of your testimony, (USPS-T-35) at lines 19-20, you state that "Within County discounts are generally based on cost avoidance derived for the Outside County subclass with appropriate passthroughs." Please identify each Within County discount category where your recommendations rely on both cost avoidances derived from the Outside County subclass and on cost avoidance passthroughs that differ from the passthroughs that you recommend for the Outside County subclass in this case.

**RESPONSE:**

Please refer to the Within-County workbook, worksheets "Pound Data" and "Piece Discounts2," where passthroughs for Within County are listed, and compare with the worksheets "Pound Data\_Adv", "Pound Data\_Ed", and "Piece Discounts2" in the Outside County workbook.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-13** On page 2 of your testimony, (USPS-T-35) at line 1, you state that you are sponsoring library reference L-126. With respect to USPS-LRL-126, please refer to the Within County Worksheet Rate Design Input at line 15. In that line, you indicate that the "Proportion of Revenue from Piece Rates" that was input for Within County is 53.5% (rounded to 54%). Please confirm that the proportion of revenue from piece rates that you are recommending in this case for Within County Periodicals is 53.5%. Please explain any answer other than a confirmation.

**RESPONSE:**

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-14** On pages 6-7 of your testimony, (USPS-T-35) beginning at line 23 of page 6, you reference the "long-observed trend that the piece side contributes more than 60 percent of mail processing and delivery costs." Please confirm that this trend applies to Within County Periodicals as well as to Outside County Periodicals. Explain fully with supporting reference any answer other than a confirmation.

**RESPONSE:**

I do not have any studies to confirm or deny that the statement made for Outside County also applies to Within County.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-15** On page 2 of your testimony, (USPS-T-35) at line 1, you state that you are sponsoring library reference L-126. With respect to USPS-LRL-126, please refer to the Within County Worksheet Piece Discounts 2 page at line 14. At that line, you propose a cost avoidance passthrough of 58% for carrier route presorted Within County pieces. Yet in the same Library Reference in Outside County Worksheet Piece Discounts 2 page at line 14, you propose a cost avoidance pass through of 148% for carrier route presorted Outside County pieces. Please confirm these passthrough percentages and explain fully why your proposed passthrough for Outside County Carrier Route pieces is nearly two and half times the passthrough that you proposed for Within County Carrier Route pieces.

**RESPONSE:**

Confirmed that the proposed passthrough for carrier route presorted Within County pieces is 58% and that for carrier route Outside County pieces is 148%. Please see my response to NNA/USPS-T35-11, where I note that the flexibility offered by selecting different passthroughs within each subclass helps meet the rate design objectives. In this instance, the low average revenue per piece for Within County does not allow for as much de-averaging as is possible in the Outside County subclass. In this instance, a greater than 58 percent passthrough in the Within County subclass would lead to higher proposed rates for non-carrier-route mail.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-16** On page 2 of your testimony, (USPS-T-35) at line 1, you state that you are sponsoring library reference L-126. With respect to USPS-LRL-126, please refer to the Within County Worksheet Piece Discounts 2 page at line 15. At that line, you propose a cost avoidance passthrough of 62% for High Density Within County pieces. Yet in the same Library Reference in Outside County Worksheet Piece Discounts 2 page at line 15, you propose a cost avoidance passthrough of 100% for High Density Outside County pieces. Please confirm these passthrough percentages and explain fully why your proposed passthrough for Outside County High Density pieces is more than 60% higher than the passthrough that you proposed for Within County High Density pieces

**RESPONSE:**

Confirmed that the proposed passthrough for High Density Outside County pieces is 100 percent. In the revised library reference L-126, the proposed passthrough for High Density Within County pieces is 65 percent. Please see my response to NNA/USPS-T35-15.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-17** Please refer to your calculations in LR L126, under the "Discounts" worksheet on pg 6 of 14.

- a. Please confirm that mail processing costs for within county mail at both high density and saturation sortations is 1.409 cents and confirm that Witness Talmo is your source for those figures.
- b. Do you believe that high density within county mail requires no greater amount of mail processing than saturation mail? If so, please explain why.

**RESPONSE:**

- a. The revised mail processing cost in LR-L-84 for Outside County and Within County mail at both high density and saturation flats is 1.599 cents. Confirmed that LR-L-84 is sponsored by witness Talmo.
- b. Please refer to witness Talmo's response to Advo/USPS-T27-5.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-18** Please refer to your testimony on p. 5 regarding the May 2006 mail preparation change requiring at least 24 pieces of mail in sacks. Are the sacks formerly containing fewer than 24 pieces the ones to which you refer as "small sacks" at lines 17-18. If so, why do you believe only 65 percent of these sacks will have been eliminated by the test year, when the mail preparation rules permit none of them at all?

**RESPONSE:**

It is my understanding that the current standards allow for many sacks that have fewer than 24 pieces. See DMM sections 705.9.0 through 705.11.0, 707.13.0, 707.22.0, 707.23.0, 707.25.0, and Exhibit 708.6.1.4 for details.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-19** Please explain how you determined, with reference to your testimony on p. 5, lines 2-5 that price signals will encourage abandonment of sacks by mailers. If their mail piece sizes or publication deadlines preclude the use of pallets, either as single mailers or in co-palletization, what effect do you expect to produce from this price signal?

**RESPONSE:**

I did not suggest the "abandonment" of sacks in my testimony. As said in my response to MH/USPS-T35-1(a), the container rate is developed to send an appropriate price signal to encourage better mail preparation and improve Periodicals efficiency, without imposing an overwhelming burden on those smaller publications which may not have the volume or density to fully take advantage of the price incentives. The same principle that limits the effect on smaller publications also applies to publications that have production deadlines that preclude the use of pallets. Smaller publications would still have an incentive to use fewer containers, for instance, fewer sacks. In addition, the *container rate is an integral part of the rate structure, providing revenue that allows other rate elements to be lower.*

I recognize that some customers will not be able to reconfigure their mailings. And the proposed rate structure may result in larger increases for some of these customers. At the same time, I am not certain that the presence of these customers provides sufficient rationale for denying reasonable incentives for lower cost mailings, and the customers who can create them.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-20** Please confirm that a mailer unable to respond to the containerization price signal by eliminating the use of sacks could help to eliminate sacks by simply ceasing to mail and if you do confirm, please explain whether you have considered this outcome in your predictions for the test year.

**RESPONSE:**

I understand that postage is an integral cost of doing business for almost all mailers. A critical issue that the Postal Service wrestles with during any rate change or mail preparation change is the impact on customers. I think I can safely say that the same holds true with the Postal Rate Commission. I do not believe that any of the workshare incentives such as automation, presort, or dropship fostered by the Commission or the Postal Service was developed with the intent of eliminating the non-workshared volume.

While it is certainly not the intention of the Postal Service to make the mail cost prohibitive for individual customers, the container rate is intended to make Periodicals more efficient and affordable without imposing an overwhelming burden on those small publications which may not have the volume or density to fully take advantage of the price incentives. Smaller publications would still have an incentive to use fewer containers, for instance, fewer sacks. Moreover, the Within County subclass is not subject to the proposed container rate.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-21** Please refer to your statement on p. 4, lines 16-18, that the Postal Service has worked with the Periodicals industry to contain costs and to encourage better mail preparation and work-sharing. Does this statement refer primarily to the "magazine" industry, as opposed to other types of periodicals, such as newspapers? If not, please provide any information you may have on how the Postal Service has "encouraged" better mail preparation by newspapers other than requiring the elimination of sacks containing fewer than 24 pieces.

**RESPONSE:**

No, this statement refers to all publications. From the pricing standpoint, for example, the proposed dropship rates for editorial pounds, accompanied by the increased per-piece dropship discounts (for both Outside County and Within County Periodicals), would encourage better mail preparation for all Periodicals mail.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-22** Please refer to your response to ABM/USPS T35-3. Has the Postal Service carried out any studies or has it completed any analysis of the mailstream or any other factual investigation to indicate that a typical weekly newspaper possesses the characteristics quoted by ABM from the materials circulated around the time this case was initiated? If your response is yes, please provide copies of these source materials. If your response is no, please explain how the Postal Service decided to use this example.

**RESPONSE:**

No. It is my understanding that the sole purpose of this example was to illustrate the postage one might see for a hypothetical *Periodicals* piece. The examples were not meant to be representative or typical of a specific publication. As I stated in my response to ABM/USPS-T35-9 (a-c), in the universe of *Periodicals* publications, there is a wide variety of combinations of piece weight, entry zone, percentage of editorial content, shape, presort level, and other characteristics. Even within one mailing, many combinations may exist.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-23** Please refer to your response to MPA/USPS T35-1, part f. Does your response mean that the Postal Service intends to impose a container charge upon periodicals that are not in a container, such as bundles left on a loading dock at a local post office? If your response is yes, please explain what container cost would be created by such a bundle.

**RESPONSE:**

Yes. Please see my response to MH/USPS-T35-5 as to how the container rate may be assessed under the circumstance described. See also my response to NNA/USPS-T35-24.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS-T35-24** With respect to flats tubs or trays,

- a) please define these terms if you consider them containers that might be subject to container charges
- b) has the Postal Service completed any studies on the mail processing and /or other costs associated with flats tubs or trays? If so, please provide copies of the studies?
- c) If your response to part b. is no, please explain on what basis the Postal Service would impose a charge on a flat tub or tray?
- d) If a charge on a flat tub or tray is intended, will the Postal Service propose the charge to the Postal Rate Commission in a separate proceeding?
- e) Does the Postal Service believe the cost of handling a tray is equivalent to, greater than or less than the cost of handling a sack? Please provide any studies that support this belief.

**RESPONSE:**

- a) The vast majority of Periodicals mail is in sacks or on pallets. Nevertheless, the container rate is an integral part of Periodicals pricing and all Outside County mailings will be subject to it, including those that are not in sacks or on pallets.
- b) It is my understanding that the Postal Service has not completed any specific studies on the mail processing or other costs associated with flats tubs or trays.
- c) The proposed container rate is an integral part of the rate structure. Its existence allows for other rate elements to be lower than they otherwise would be, so it must apply to all mailings. These relatively rare situations, where pallets or sacks are not used, require alternative means for assessing the charge. These means will be the subject of specific standards that will be published in the Federal Register for comment.
- d) No, since we have proposed a "container" rate, not a "sack" or "pallet" rate.
- e) There are many variables that would affect the relative costs of trays and sacks. Given these variables, I cannot offer an assessment as to the relative costs.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION

**NNA/USPS T35-25.** If a set of flats tubs or trays were provided by a mailer on a piece of rolling stock, such as an All Purpose container, such that handling of individual tubs or trays would be unnecessary at most points in the mail processing network, would the "container" be considered the individual tubs or trays, or would it be the rolling stock, assuming a container charge of some sort would apply in this scenario? Please explain your response.

**RESPONSE:**

The vast majority of Periodicals mail is in sacks or on pallets. The proposed container charge is an integral part of the rate structure. Its existence allows for other rate elements to be lower than they otherwise would be, so it must apply to all mailings. *These relatively rare situations, where pallets or sacks are not used, require alternative means for assessing the charge. These means will be the subject of specific standards that will be published in the Federal Register for comment. In this particular situation, for instance, one approach may be to use the number of containers that could have otherwise been prepared according to the output of the mailing software.*

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF PITNEY BOWES INC.

**PB/USPS-T35-1.** Please confirm that the Postal Service's current and proposed rate design for Periodicals Mail incorporates dropship and zoning discounts. If you cannot confirm fully, please provide a detailed explanation why.

**RESPONSE:**

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF PITNEY BOWES INC.

**PB/USPS-T35-2.** Please refer to page 8 of your testimony, where you state, "[j]ust as it is important to encourage the dissemination of editorial content throughout the country, it is also important to allow such content to share in the efficiency associated with deposit of the mail closer to the point of delivery." Please provide a detailed description of the efficiency associated with the deposit of mail closer to the point of delivery.

**RESPONSE:**

A good example of the efficiency associated with the deposit of Periodicals mail closer to the point of delivery is embodied in the co-palletization experiment. In Docket No MC2002-3, the Postal Service introduced co-palletization incentives to encourage Periodicals mailers, especially smaller publications, to co-palletize their mail and dropship it closer to the point of delivery, either at destination Area Distribution Centers (ADCs) or destination Sectional Center Facilities (SCFs).

The co-palletization incentives were designed to address the substantial amount of sacked, non-dropshipped Periodicals mail, most of which is flat-shaped and costly to handle and transport across the country. To palletize and dropship Periodicals mail requires mail volume and density. For smaller publications, and larger publications with disparate subscribers, it may be difficult to achieve the necessary volume and density. However, the co-palletization dropship discounts provide incentives for the combination of different publications on pallets which enables efficient preparation and dropship.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

Questions 1-9 refer to USPS-LR-L-126, workbook "R2006-1 Outside County.xls."

1. Please refer to worksheets "Fcst08" and "Rate Design Input." The after-rates volumes shown in these worksheets are shown in the following table.

<b>TYAR 2008</b>	
<b>Regular Rate</b>	6,326,091,074
<b>Nonprofit</b>	1,710,737,452
<b>Classroom</b>	60,398,065
<b>Outside County</b>	8,097,226,591

The source for these numbers is given as "USPS-LR-L-63, witness Thress." However, the volumes that appear in USPS-LR-L-63 and Attachment A (page 412) of USPS-T-7 are shown in the following table.

<b>TYAR 2008</b>	
<b>Regular Rate</b>	6,290,945,257
<b>Nonprofit</b>	1,698,940,905
<b>Classroom</b>	60,068,114
<b>Outside County</b>	8,049,954,276

Please reconcile the differences in the Outside County volumes.

**RESPONSE:**

The USPS-T-7 volumes are included in the revised version of USPS-LR-L-126, which will be filed shortly.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

10. This question refers to Attachment A to the Postal Service Request (R2006-1), Periodicals Rate Schedule 421. Please confirm that to be consistent with the Service's proposal, Note 3 should be revised to include a reference to the container charge.

**RESPONSE:**

Confirmed. The words "and container charges" could replace the word "charge" in the footnote, after the word "piece."

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

2. Please refer to worksheet "Rev. Adj+Ed Cont." Please provide the source for the Outside County advertising and editorial pounds distribution by zone. Please provide the specific file, worksheet and cell references for these data.

**RESPONSE:**

The source for the Outside County advertising and editorial pounds distribution by zone is USPS-LR-L-87 (Revenue, Pieces, and Weight Estimates by Shape, Weight Increment, and Indicia), Table 6: FY 2005 Periodicals Outside County Advertising and Editorial Pounds by Postal Zone. This will be noted in the worksheet in the revised USPS-LR-L-126 to be filed shortly.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

3. Please refer to worksheet "FY2005\_BD." Please confirm that the percentage in cell D168 should be 33.15% instead of 31.78%. If you do not confirm, please provide the derivation of the 31.78%.

**RESPONSE:**

Not confirmed. 31.78 percent in cell D168 represents the revenue percentage from pound rates and is derived by dividing cell D160 (calculated pound revenue) by cell D159 (calculated total revenue), both before subtracting the preferred rate discount revenue. Because the preferred rate discount does not apply to outside-county postage for advertising pounds, the before-discount pound and total revenues should be used. This approach is also consistent with the calculation of cell D218, revenue percentage from pound rates in the Classroom subclass.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

4. Please refer to worksheet "Test Year BR w 24pc Adjustm't" cells B116 to B120. Please explain why you applied the editorial pound adjustment to the SCF volume (cell B117) but did not similarly adjust the volumes in cells B116, B118, or B120.

**RESPONSE:**

In worksheet "Test Year BR w 24pc Adjustm't", the editorial pound adjustment factor should not have been applied to the SCF volume (cell B117). This is a mistake and has been corrected in the revised USPS-LR-L-126, to be filed shortly. The correction does not cause material changes and does not affect rates or rate design.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

5. Please refer to workbook Outside County.xls, worksheet "Container." Please provide the specific file, worksheet and cell references in USPS-LR-L-91 for the volumes in cells D5, D6, and F6.

**RESPONSE:**

In USPS-LR-L-91, Table 3, flats volume in sacks and on pallets is listed according to rate categories. Cells D5 and D6 show the total flats volumes on pallets and in sacks, respectively, by summing up pallet flats and sack flats volumes across rate elements in Table 3. Cell F6 refers to the number of sacks with fewer than 24 mail pieces, and can be found in USPS-LR-L-91, Table 5. These detailed source references will be included in the revised USPS-LR-L-126 to be filed shortly.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

6. Please refer to worksheet "Pound Data." Please provide the specific file, worksheet and cell references for the pound and volume figures used to calculate the value in cell C41. In cell D41 what does Spreadsheet OC-F refer to?

**RESPONSE:**

In worksheet "Pound Data," cell C41 refers to the weight per piece calculation from spreadsheet "Test Year BR w 24pc Adjustm't," whose link should have been updated. The reference in cell D41 also needs to be updated as well and should be "C36 Divided by Total Pieces from spreadsheet Test Year BR w 24pc Adjustm't." These updates will be included in the revised USPS-LR-L-126 to be filed shortly. They do not cause material changes and do not affect rates or rate design.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

7. Please refer to worksheet "Discounts." Please provide the specific file, worksheet and cell references for the value in cell D18.

**RESPONSE:**

Cell D18 in worksheet "Discounts" refers to test year after rates revenue (excluding fees) from worksheet "FY2008 Summary," Cell B9. Links of Cell C18, C19, D18, and D19 will be reestablished and updated in the revised USPS-LR-L-126 to be filed shortly. These updates do not cause material changes.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

8. Please refer to worksheet "Discounts." The source given for the mail processing costs is USPS-LR-L-43 (Flats Mail Processing Cost Models). Please provide the specific file, worksheet and cell references for the values in cells C40, C41, and C42. If these numbers are calculated, please show the calculation.

**RESPONSE:**

The source for these three cells should be USPS-LR-L-48, pages 43 and 67. The numbers are calculated by adding 10.419 cents on Page 67, which is the cost difference between "Nonautomation Nonmachinable All Presort Levels" and "Nonautomation Machinable All Presort Levels", to the mail processing unit costs on page 43 for "Nonautomation MADC/MAADC Presort Letters" (6.344 cents), "Nonautomation 3-digit Presort Letters" (5.785 cents), and "Nonautomation 5-digit Presort Letters" (5.247 cents). Please note that I will be updating some of the cost numbers in my worksheet because earlier estimates were used in the original worksheet. All the updates and changes are not material and will be included in the revised USPS-LR-L-126.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

9. Please refer to worksheet "Discounts." The source given for the delivery costs is USPS-LR-L-67. Please provide specific worksheet and cell references for the values in cells D30, D33, D40, D43, D45, and D61. If these numbers are calculated from various LR-L-67 inputs, please show the calculation.

**RESPONSE:**

The source of these cells is USPS-LR-L-67, UDCModel.USPS, worksheet "1.Table 1": Test Year 2008 Unit Delivery Costs. Please note that some of the cost numbers in my worksheet differ slightly from the numbers in USPS-LR-L-67, because earlier estimates were used as inputs to the original worksheet. Cell D30 is the unit cost for Periodicals flats in USPS-LR-L-67, Table 1; cell D33 is the Standard ECR non-saturation flats unit cost; D40 is the Periodicals letters unit cost; cells D43, D44, and D45 should be the updated Standard Regular machinable letters unit cost; Cell D61 is the Standard ECR saturation flats unit cost. Because of these adjustments, I also have slightly adjusted the passthroughs on Basic Automation Letters and 5-Digit Automation Letters to 35.3 percent (from 34 percent) and 22.3 percent (from 23 percent), respectively. These updates and adjustments will be included in the revised USPS-LR-L-126.

RESPONSE OF POSTAL SERVICE WITNESS TANG TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

10. Please reconcile the differences in revenues for Within County and Outside County in USPS-LR-L126, file R2006-1 Outside County.xls, worksheet "FY2008 Summary," cells D7, D8, and D10 with the revenues appearing in USPS-31B.

**RESPONSE:**

The reconciled data will be included in the revised USPS-LR-L-126 to be filed shortly.

RESPONSE OF POSTAL SERVICE WITNESS TANG TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

7. Please refer to USPS-LR-L-126, file R2006-1 *Outside County*, xls, worksheet "TYAR NP" (cell D88) and "TYAR CR" (cell D54). Please explain why container revenue is not included in the revenue totals for Nonprofit or Classroom.

**RESPONSE:**

Container revenue should have been included in the revenue totals for the Nonprofit and Classroom subclasses. The correction will be included in the revised USPS-LR-L-126 to be filed shortly.

RESPONSE OF POSTAL SERVICE WITNESS TANG TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

8. Please refer to the following statement in USPS-T-35, page 6, line 22: "I propose a 37-63 split between revenue to be raised from pounds and pieces." Please explain how container revenues are categorized and what effect this has on the 37-63 split.

**RESPONSE:**

First of all, to be more accurate, the initial split between pound and piece revenue is 37.5 – 62.5. Although the container rate is neither a pound nor a piece rate, in this case the container revenue was added back to the calculated piece revenue, and offsets the revenue leakage on the piece side (worksheet "Piece Discounts," cells G37 and G38). This was done to mitigate the rate impact on the piece side in this particular case, but this approach may not be followed in future cases. Since the additional revenue from the container rate was included in the revenue needed from the piece rates, the proportion of the revenue collected from the piece side actually is reduced.

RESPONSE OF POSTAL SERVICE WITNESS TANG TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

9. Please refer to the discussion of pound rates in USPS-T-35, page 6-10 and worksheet "Pound Data" (cells D54, D55, and D56). Please explain fully why 30 percent passthroughs are used for the pound rate dropship discounts instead of the 50.3, 50.4, and 50.4 percent passthroughs proposed in Docket No. R2001-1. (See Docket No. R2001-1, USPS-LR-L-J-107, file OC01.xls, worksheet "Pound Data\_Adv" cells D47, D48, and D49).

**RESPONSE:**

Please disregard the "Pound Data" worksheet. It should have been excluded from the workbook. The data in that worksheet have not been used in any other sheet. All the pound rates have been developed in the work sheets "Pound Data\_Adv" and "Pound Data\_Ed," which continue to use the Docket No. R2001-1 passthroughs for the pound rate dropship discounts. This update will be included in the revised LR-L-126 to be filed shortly.

RESPONSE OF POSTAL SERVICE WITNESS TANG TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

5. The following question refers to USPS-LR-L-126, workbook "R2006-1 Outside County.xls." Please refer to worksheets "RR TYAR," "NP TYAR," and "CR TYAR." In these worksheets the base year to test year volume forecast ratio was applied to the volumes from worksheet "Test Year BR w 24pc Adjustm't." Please explain the reasons for using the test year before-rates volumes instead of the base-year volumes.

**RESPONSE:**

In worksheets "RR TYAR", "NP TYAR", and "CR TYAR", the ratio applied to the volumes from worksheet "Test Year BR w 24 piece Adjustm't" is the test- year-after-rates (TYAR) to test-year-before-rates (TYBR) ratio. Since the 24-piece volume adjustment was not applied to the base year, the mail mix change occurring in 2006 would not be reflected in the rate design if the base year volume were used. I have updated the notes to indicate it is the "TYAR to TYBR ratio" that is calculated in worksheet "Fcst08". The change will be included in the revised LR-L-126 to be filed shortly.

RESPONSE OF POSTAL SERVICE WITNESS TANG TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

6. The following question refers to USPS-LR-L-126, workbook "R2006-1 Within County.xls." Please refer to worksheet "TYAR BD" cell B23. In this cell the base-year to test-year volume forecast ratio was applied to the test year before-rates volume of Ride-Along pieces. Please explain the reasons for using the test year before-rates volume for Ride-Along pieces instead of the base-year volume as used in cells B5, B6, and B9 through B21.

**RESPONSE:**

Cell B23 in worksheet "R2006-1 Within County.xls" should have used the base-year volume, not the test year before-rates volume. The correction will be included in the revised LR-L-126 to be filed shortly. It will not cause material change to rates or rate design.

Revised August 3, 2006

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6

1. Please provide current and proposed per-piece postage (including piece charge, pound charge, and container charge) for the following publications. Please specify all assumptions made concerning containers used, presort levels, dropshipping, and any other assumptions used.
- a. A weekly news magazine with circulation of over 300,000 pieces per issue and 50 percent editorial content.
  - b. A monthly Nonprofit publication with circulation between 15,000 and 100,000 pieces per issue.
  - c. A Classroom publication.
  - d. A Science of Agriculture publication.
  - e. A monthly Regular publication with 70 percent editorial content.
  - f. Any Outside County publication with circulation of less than 5,000 pieces per issue.
  - g. A Within County publication.

**RESPONSE:**

For each of parts (a) – (g), there could be a wide range of publications with diverse mail characteristics. Assumptions (such as piece weight, editorial content, piece distribution to various zones and presort levels, etc) have been adopted to come up with an example for each publication. These postage examples are calculated solely for illustrative purposes. One can expect to see these characteristics in the types of publications listed above, but they are not guaranteed to be average, and do not represent a specific publication.

Within some of the categories defined in Question 1, there can be significant variation in publication characteristics. For example, publications with a mail circulation less than 5,000 pieces include both publications of local interest that are likely to have most pieces presorted to the 5-Digit or Carrier Route level and entered at the DSCF, and publications of national interest that can only achieve a presort level of ADC or 3-Digit. Because of the variation within these categories, it is not possible to construct a typical or average publication.

The seven worksheets have been tabbed "a" to "g", corresponding to the parts in this request. All the assumptions are shown in the attached spreadsheet, and the current and proposed postage calculations have been broken down to pound postage, piece postage, discounts, and the container charge, as requested.







F 1-d.  
 A SUA publication  
 Piece 1,500  
 Piece Weigh 0.375  
 Total Weigh 563  
 Editorial 75%

Advertising Lbs 141  
 Editorial Lbs 422

Assume all flats. 1600 pieces per pallet. 40 pieces per sack

Revised August 3, 2006  
 Attachment to Responses  
 Question 1, Page 4 c

Pound Rates

	Piece Distribution	Addressed Pieces	Total Pounds	Adv. Pounds	Ed. Pounds	Adv. Rates Current	Ed. Rates Current	Adv. Rates Proposed	Ed. Rates Proposed	Current Postage	Proposed Postage
DDU	23%	351	132	33	99	\$ 0.125	\$ 0.203	\$ 0.136	\$ 0.115	\$ 24	\$ 16
DSCF	67%	1,005	377	94	283	\$ 0.160	\$ 0.203	\$ 0.172	\$ 0.144	\$ 72	\$ 57
DADC	9%	135	51	13	38	\$ 0.176	\$ 0.203	\$ 0.188	\$ 0.157	\$ 10	\$ 8
Zones 1 & 2	0.5%	8	3	1	2	\$ 0.196	\$ 0.203	\$ 0.209	\$ 0.174	\$ 1	\$ 1
Zone 3	0.1%	2	1	0	0	\$ 0.281	\$ 0.203	\$ 0.301	\$ 0.232	\$ 0	\$ 0
Zone 4	0%	-	0	0	0	\$ 0.332	\$ 0.203	\$ 0.358	\$ 0.232	\$ -	\$ -
Zone 5	0%	-	0	0	0	\$ 0.410	\$ 0.203	\$ 0.444	\$ 0.232	\$ -	\$ -
Zone 6	0%	-	0	0	0	\$ 0.491	\$ 0.203	\$ 0.535	\$ 0.232	\$ -	\$ -
Zone 7	0%	-	0	0	0	\$ 0.589	\$ 0.203	\$ 0.644	\$ 0.232	\$ -	\$ -
Zone 8	0%	-	0	0	0	\$ 0.672	\$ 0.203	\$ 0.738	\$ 0.232	\$ -	\$ -
<b>Total</b>	<b>100%</b>	<b>1,500</b>	<b>563</b>	<b>141</b>	<b>422</b>					<b>\$ 107</b>	<b>\$ 82</b>
<b>Pound Postage</b>										<b>\$ 0.191</b>	<b>\$ 0.145</b>

Piece Rates

	Piece distribu	Piece	Current	Proposed		
Basic NA	0.1%	2	\$ 0.393	\$ 0.437	\$ 1	\$ 1
Basic Auto	2.0%	30	\$ 0.343	\$ 0.398	\$ 10	\$ 12
3-D NA	0.5%	8	\$ 0.341	\$ 0.364	\$ 3	\$ 3
3-D Auto	14.0%	210	\$ 0.298	\$ 0.327	\$ 63	\$ 69
5-D NA	1.4%	21	\$ 0.270	\$ 0.283	\$ 6	\$ 6
5-D Auto	61.0%	915	\$ 0.238	\$ 0.255	\$ 218	\$ 233
CR Basic	21.0%	315	\$ 0.172	\$ 0.186	\$ 54	\$ 59
<b>Total Piece</b>	<b>100.0%</b>	<b>1,500</b>			<b>\$ 354</b>	<b>\$ 382</b>
<b>Piece Postage</b>					<b>0.236</b>	<b>0.255</b>

Discounts

Editorial Pc.			-0.078	-0.089	\$ (88)	\$ (100)
<b>ALL OTHER DISCOUNTS</b>					<b>\$ (8)</b>	<b>\$ (11)</b>
DDU		0	\$ (0.019)	\$ (0.019)	\$ -	\$ -
DSCF		1,005	\$ (0.008)	\$ (0.011)	\$ (8)	\$ (11)
DADC		135	\$ (0.002)	\$ (0.003)	\$ (0)	\$ (0)
<b>Total Dripship Discounts</b>					<b>\$ (8)</b>	<b>\$ (11)</b>
DSTN Pallet		0	\$ (0.016)	\$ -	\$ -	\$ -
Non-Des Pallet		0	\$ (0.005)	\$ -	\$ -	\$ -
<b>Total Pallet Discounts</b>					<b>\$ -</b>	<b>\$ -</b>
<b>Total Containers</b>		<b>38</b>	<b>\$ -</b>	<b>\$ 0.850</b>	<b>\$ -</b>	<b>\$ 32</b>
<b>Total Postage</b>					<b>\$ 365</b>	<b>\$ 384</b>
<b>\$ per piece</b>					<b>0.243</b>	<b>0.256</b>

F 1-e.  
A monthly regular publication with 70% editorial content  
Piece 3,500  
Piece Weight 0.5625  
Total Weight 1,969  
Editorial 70%

Advertising Lbs 591  
Editorial Lbs 1,378  
Assume all flats, 1600 pieces per pallet, 40 pieces per sack

Round Rates

	Piece Distribution	Addressed Pieces	Total Pounds	Adv. Pounds	Ed. Pounds	Adv. Rates	Ed. Rates	Adv. Rates	Ed. Rates	Current Postage	Proposed Postage
						Current	Current	Proposed	Proposed		
DDU	0%	-	0	0	0	\$ 0.167	\$ 0.203	\$ 0.181	\$ 0.154	\$ -	\$ -
DSCF	15%	525	295	89	207	\$ 0.214	\$ 0.203	\$ 0.230	\$ 0.193	\$ 61	\$ 60
DADC	20%	700	394	118	276	\$ 0.235	\$ 0.203	\$ 0.251	\$ 0.210	\$ 84	\$ 88
Zones 1 & 2	8%	280	158	47	110	\$ 0.261	\$ 0.203	\$ 0.279	\$ 0.232	\$ 35	\$ 39
Zone 3	12%	420	236	71	165	\$ 0.281	\$ 0.203	\$ 0.301	\$ 0.232	\$ 53	\$ 60
Zone 4	15%	525	295	89	207	\$ 0.332	\$ 0.203	\$ 0.358	\$ 0.232	\$ 71	\$ 80
Zone 5	11%	385	217	65	152	\$ 0.410	\$ 0.203	\$ 0.444	\$ 0.232	\$ 57	\$ 64
Zone 6	9%	315	177	53	124	\$ 0.491	\$ 0.203	\$ 0.535	\$ 0.232	\$ 51	\$ 57
Zone 7	5%	175	98	30	69	\$ 0.589	\$ 0.203	\$ 0.644	\$ 0.232	\$ 31	\$ 35
Zone 8	5%	175	98	30	69	\$ 0.672	\$ 0.203	\$ 0.738	\$ 0.232	\$ 34	\$ 38
<b>Total</b>	<b>100%</b>	<b>3,500</b>	<b>1,969</b>	<b>591</b>	<b>1,378</b>					<b>\$ 478</b>	<b>\$ 520</b>
Round Postage										\$ 0.243	\$ 0.264

Piece Rates

	Piece distrib:	Piece	Current	Proposed		
Basic NA	2.0%	70	\$ 0.393	\$ 0.437	\$	28 \$ 31
Basic Auto	56.0%	1,960	\$ 0.343	\$ 0.398	\$	672 \$ 780
3-D NA	1.2%	42	\$ 0.341	\$ 0.364	\$	14 \$ 15
3-D Auto	29.5%	1,033	\$ 0.298	\$ 0.327	\$	308 \$ 338
5-D NA	0.3%	11	\$ 0.270	\$ 0.283	\$	3 \$ 3
5-D Auto	9.0%	315	\$ 0.238	\$ 0.255	\$	75 \$ 80
CR Basic	2.0%	70	\$ 0.172	\$ 0.186	\$	12 \$ 13
<b>Total Piece</b>	<b>100.0%</b>	<b>3,500</b>			\$	<b>1,112 \$ 1,260</b>
Piece Postage						<b>0.318 0.360</b>

Discounts

Editorial Pc.			-0.078	-0.089	\$	(191) \$ (218)
<b>ALL OTHER DISCOUNTS</b>					\$	<b>(6) \$ (8)</b>
DDU		0	\$ (0.019)	\$ (0.019)	\$	- \$ -
DSCF		525	\$ (0.008)	\$ (0.011)	\$	(4) \$ (6)
DADC		700	\$ (0.002)	\$ (0.003)	\$	(1) \$ (2)
Total Dripship Discounts					\$	<b>(6) \$ (8)</b>
DSTN Pallet		0	\$ (0.016)	\$ -	\$	- \$ -
Non-Des Pallet		0	\$ (0.005)	\$ -	\$	- \$ -
Total Pallet Discounts					\$	<b>- \$ -</b>
Total Containers		88	\$ -	\$ 0.850	\$	<b>- \$ 74</b>
<b>Total Postage</b>					\$	<b>1.393 \$ 1.628</b>
\$ per piece						<b>0.398 0.465</b>

PC 1-f  
 Any outside county publication with circulation of less than 5,000 pieces per issue  
 Piece 4,000  
 Piece Weight 1.25  
 Total Weight 5,000  
 Editorial 45%

Advertising Lbs 2,750  
 Editorial Lbs 2,250  
 Assume all flats, 1600 pieces per pallet, 40 pieces per sack

Round Rates

	Piece Distribution	Addressed Pieces	Total Pounds	Adv. Pounds	Ed Pounds	Adv. Rates	Ed Rates	Adv. Rates	Ed Rates	Current Postage	Proposed Postage
						Current	Current	Proposed	Proposed		
DDU	0%	-	0	0	0	\$ 0.167	\$ 0.203	\$ 0.181	\$ 0.154	\$ -	\$ -
DSCF	12%	480	600	330	270	\$ 0.214	\$ 0.203	\$ 0.230	\$ 0.193	\$ 125	\$ 128
DADC	20%	800	1,000	550	450	\$ 0.235	\$ 0.203	\$ 0.251	\$ 0.210	\$ 221	\$ 233
Zones 1 & 2	8%	320	400	220	180	\$ 0.261	\$ 0.203	\$ 0.279	\$ 0.232	\$ 94	\$ 103
Zone 3	12%	480	600	330	270	\$ 0.281	\$ 0.203	\$ 0.301	\$ 0.232	\$ 148	\$ 162
Zone 4	15%	600	750	413	338	\$ 0.332	\$ 0.203	\$ 0.358	\$ 0.232	\$ 205	\$ 226
Zone 5	11%	440	550	303	248	\$ 0.410	\$ 0.203	\$ 0.444	\$ 0.232	\$ 174	\$ 192
Zone 6	9%	360	450	248	203	\$ 0.491	\$ 0.203	\$ 0.535	\$ 0.232	\$ 163	\$ 179
Zone 7	6%	240	300	165	135	\$ 0.589	\$ 0.203	\$ 0.644	\$ 0.232	\$ 125	\$ 138
Zone 8	7%	280	350	193	158	\$ 0.672	\$ 0.203	\$ 0.738	\$ 0.232	\$ 161	\$ 179
Total	100%	4,000	5,000	2,750	2,250					\$ 1,416	\$ 1,539
Round Postage										\$ 0.283	\$ 0.308

Piece Rates	Piece distrib	Piece	Current	Proposed		
Basic NA	0.0%	0	\$ 0.393	\$ 0.437	\$ -	\$ -
Basic Auto	61.0%	2,440	\$ 0.343	\$ 0.398	\$ 837	\$ 971
3-D NA	0.0%	0	\$ 0.341	\$ 0.364	\$ -	\$ -
3-D Auto	30.0%	1,200	\$ 0.298	\$ 0.327	\$ 358	\$ 392
5-D NA	0.0%	0	\$ 0.270	\$ 0.283	\$ -	\$ -
5-D Auto	9.0%	360	\$ 0.238	\$ 0.255	\$ 86	\$ 92
CR Basic	0.0%	0	\$ 0.172	\$ 0.186	\$ -	\$ -
Total Piece	100.0%	4,000			\$ 1,280	\$ 1,455
Piece Postage					0.320	0.364
Discounts						
Editorial Pc.			-0.078	-0.089	\$ (140)	\$ (160)
ALL OTHER DISCOUNTS					\$ (5)	\$ (8)
DDU		0	\$ (0.019)	\$ (0.019)	\$ -	\$ -
DSCF		480	\$ (0.008)	\$ (0.011)	\$ (4)	\$ (5)
DADC		800	\$ (0.002)	\$ (0.003)	\$ (2)	\$ (2)
Total Dripship Discounts					\$ (5)	\$ (8)
DSTN Pallet		0	\$ (0.016)	\$ -	\$ -	\$ -
Non-Des Pallet		0	\$ (0.005)	\$ -	\$ -	\$ -
Total Pallet Discounts					\$ -	\$ -
Total Containers		100	\$ -	\$ 0.850	\$ -	\$ 85
Total Postage					\$ 2,550	\$ 2,911
\$ per piece					0.638	0.728

1 1-g  
 A within county publication  
 Piece 1,200  
 Piece Weight 0.34375  
 Total Weight 413  
 Editorial NA

Assume all flats  
 Pound Rates

	Piece Distribution	Addressed Pieces	Total Pounds	Pound Rates Current	Pound Rates Proposed	Current Postage	Proposed Postage
DDU	40%	480	165	\$ 0.109	\$ 0.142	\$ 18	\$ 23
General	60%	720	248	\$ 0.142	\$ 0.179	\$ 35	\$ 44
<b>Total</b>	<b>100%</b>	<b>1,200</b>	<b>413</b>			<b>\$ 53</b>	<b>\$ 68</b>
Pound Postage						0.129	0.164

Piece Rates	Piece distrib	Piece	Current	Proposed	Current Postage	Proposed Postage
Basic NA	0.0%	0	\$ 0.103	\$ 0.117	\$ -	\$ -
Basic Auto	0.5%	6	\$ 0.075	\$ 0.108	\$ 0.45	\$ 0.65
3-D NA	1.0%	12	\$ 0.095	\$ 0.108	\$ 1.14	\$ 1.30
3-D Auto	10.0%	120	\$ 0.071	\$ 0.097	\$ 8.52	\$ 11.64
5-D NA	3.0%	36	\$ 0.085	\$ 0.098	\$ 3.06	\$ 3.53
5-D Auto	30.5%	366	\$ 0.065	\$ 0.093	\$ 23.79	\$ 34.04
CR Basic	55.0%	660	\$ 0.049	\$ 0.060	\$ 32.34	\$ 39.60
<b>Total Piece</b>	<b>100.0%</b>	<b>1,200</b>			<b>\$ 69.30</b>	<b>\$ 90.75</b>
Pound Postage					\$ 0.058	\$ 0.076

Discounts			Current	Proposed	Current Postage	Proposed Postage
DDU		480	\$ (0.006)	\$ (0.008)	(2.88)	(4)
<b>Total Postage</b>					<b>\$ 119.550</b>	<b>\$ 154.643</b>
<b>\$ per piece</b>					<b>\$ 0.100</b>	<b>\$ 0.129</b>

**RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO POIR NO. 6, QUESTION 2**

2. Please refer to USPS-T-35 at 15, Table 6, captioned, "Within County Current vs. Proposed Rates" and the Request, Attachment A at page 36, Periodicals Rate Schedule 423 Within County, where the following rates for a Basic Automation flat and a 3-digit Nonautomation piece appear:

<b>Pieces</b>	<b>Current</b>	<b>Proposed</b>
Basic Automation flat	0.075	0.108
3-digit Nonautomation piece	0.095	0.108

Witness Tang does not specifically address these rates in her testimony, but states: "Within County discounts are generally based on cost avoidance derived for the Outside County subclass with appropriate passthroughs." USPS-T-35 at 14. Please confirm that the Postal Service proposes charging identical piece rates for a Basic Automation flat and a 3-digit Nonautomation piece and provide the rationale for doing so. If this cannot be confirmed, please explain.

**RESPONSE:**

Confirmed. The formulas and passthroughs used to calculate these rate cells are consistent with those in past rate cases. It just so happens, in this instance, that the prices are the same. Incidentally, the FY2005 volume in Basic Automation flats was less than one million pieces, about 0.13 percent of total Within-County volume.

RESPONSE OF POSTAL SERVICE WITNESS TANG TO  
POIR NO. 6, QUESTION 6

6. Witness Tang's June 1 responses to POIR No. 2, Questions No. 7, 9, and 10 stated that a revised version of USPS-LR-L-126 would be provided shortly. Please provide the anticipated filing date of the revised library reference or a status report if no firm date can be provided.

**RESPONSE:**

The anticipated filing date of the revised USPS-LR-L-126 is July 11, 2006, although a one or two day delay is possible.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO POIR NO. 8, QUESTION 1(A)-(B)

1. The purpose of this question is to clarify witness Tang's responses to MPA/USPS-T35-1(f) and MPA/USPS-T35-10.
  - a. Please confirm that the reference in the response to MPA/USPS-T35-10 to "witness Loetscher's response to TW/USPS-T28-7(c-d)" should be "witness Loetscher's response to TW/USPS-T28-17(c-d)." If not confirmed, please explain fully.
  - b. Does the Postal Service anticipate assessing a container charge for Outside County Periodicals presented as:
    - i. containers other than sacks and pallets, and
    - ii. bed-loaded bundles?Please explain fully and provide the appropriate citations to the Postal Service filing.

\*\*\*

**RESPONSE:**

- a. Confirmed.
- b. Yes. The proposed container charge is an integral part of the rate structure. Its existence allows for other rate elements to be lower than they otherwise would be, so it must apply to all mailings. The proposed container rate would therefore apply to mailings comprised of uncontainerized bundles of Periodicals mail, as stated in my response to MH/USPS-T35-5(a). As described in MH/USPS-T35-5, the relatively rare situations in which pallets or sacks are not used require alternative means for assessing the charge. These means will be the subject of specific standards that will be published in the Federal Register for comment. For example, the cited response to MH/USPS-T35-5(a) provides one possible approach: when bundles of Periodicals mail are entered at DDU facilities, the container rate could be assessed for each 5-digit ZIP Code or 5-digit scheme that is serviced by the DDU.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO POIR NO. 8, QUESTION 2

2. Please clarify whether presortation is a requirement of Periodicals mailers.  
Please provide citations to support your response.

**RESPONSE:**

All Periodicals rate mail must be presorted. See DMM 707.18 through 707.26 and 705 for the applicable mail preparation standards.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T35-1** Please refer to pages 6 and 7 of your testimony (USPS-T-35), beginning on line 22 of page 6, where you say: "I propose a 37 – 63 split between revenue to be raised from pounds and pieces." Please refer also to your rate design workbook "R2006-1 Outside County.xls" (in USPS-LR-L-126), sheet 'Rate Design Input,' cell C15.

- a. Please confirm that cell C15 shows a target split of 37.5 – 62.5 instead of 37 – 63.
- b. Please confirm that your proportion in C15 was applied to a revenue requirement less fees less Ride-Along revenue, before the 5 percent discount for the preferred categories. See cells C3 and C4 on sheet 'Piece Discounts' in your rate design spreadsheets. If you do not confirm, please identify the figure to which you applied your proportion.
- c. Please confirm that the revenues on the 'Rates' sheet (before the 5 percent discount on line 53 and the fees and the Ride-Along revenue) show 36.96 percent of the revenue being obtained from the pound rates, assuming the container charge is not a pound rate. If you do not confirm, please provide an appropriate estimate of your own.

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed, assuming the container rate is neither a pound nor a piece rate.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T35-2** Please refer to your rate design workbook "R2006-1 Outside County.xls" (in USPS-LR-L-126). The formula in cell F82 on the 'Pound Data' sheet divides revenue needs by weighted pounds and the formula in cell F73 on the 'Pound Data\_Adv' sheet divides by unweighted pounds. Please explain which is the appropriate procedure.

**RESPONSE:**

As I mentioned in my response to POIR 2, Question 9, the "Pound Data" worksheet was not used to develop rates and should have been excluded from the workbook. However, using weighted pounds is necessary when editorial and advertising pound rates are developed jointly, which was the case in the "Pound Data" sheet. Since the editorial pound rates and advertising pound rates are now being calculated relatively independently, whether or not to weight the very small number of Science of Agriculture advertising dropship pounds becomes a very minor issue. The adjustment would have a minimal effect on the proposed rates.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T35-3** Please refer to your rate design workbook "R2006-1 Outside County.xls" (in USPS-LR-L-126), sheet 'Pound Data\_Adv,' cell F101. Please explain all reasons why the revenue obtained from your pound rates is only 97.04 percent of your target revenue, rounding effects being one possible reason.

**RESPONSE:**

The revenue obtained from pound rates is 97.04 percent of the target revenue mainly because the revenue collected from editorial pound rates is diluted to 94.26 percent of the target revenue. The adjustment of 1.3 cents made to the average editorial pound rate caused a revenue leakage, which was applied to total pounds, not just editorial pounds. Combined with advertising pound revenue, 97.04 percent of the target pound revenue was met. Of course, rounding also contributes to the deviation from a perfect match. However, its effect is minimal compared with the dilution caused by the aforementioned leakage.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T35-4** Please refer to page 10 of your testimony (USPS-T-35), lines 10-13, where you explain that the editorial pounds of Science of Agriculture (SoA) publications should receive rates set at 75 percent of the rates for the corresponding editorial pounds of Regular publications, which you say is "consistent with the introduction of destination entry rates for other non-advertising pounds." (line 13.)

- a. Please confirm that you are proposing to grant a rate preference to editorial pounds in SoA publications beyond what is required by Congress in P.L. 103-123 (the Revenue Forgone Reform Act). Explain any failure to confirm.
- b. Please explain the policy basis for exceeding the special consideration granted to SoA publications by Congress.
- c. Please identify the rate categories where you make up the revenue loss from the rate preference for SoA editorial pounds that you are proposing.
- d. Do you agree that SoA publications already receive larger dropship discounts than Regular publications on their advertising pounds, due to the preferred rates for SoA publications granted in P.L. 103-123? If you do not agree, please explain.
- e. If the editorial pound rates for SoA publications, zones 1-2 and closer, were set equal to the editorial pound rates you are proposing for Regular publications, do you agree that SoA publications would receive the same dropship discounts on their editorial pounds that you are proposing for Regular publications? If not, please explain.
- f. Please explain why SoA publications should receive dropship discounts on their editorial pounds, zones 1-2 and closer, that are greater than the dropship discounts received by Regular publications, and why this is necessary to be "consistent with the introduction of destination entry rates for other non-advertising pounds."

**RESPONSE:**

- a. Confirmed, in that the current law does not apply to editorial pounds.
- b. I extended this approach to SOA editorial matter in order to maintain rate relationships between the regular and SOA dropship pound rates so that the SOA editorial dropship pound rate structure mirrors that of the SOA advertising dropship pounds.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

TW/USPS-T35-4, Page 2 of 2

- c. The revenue leakage from the rate preference for SOA editorial pounds is added back to the total revenue needed from the editorial pounds.
- d. Yes, I agree.
- e. Yes. As I said in my response to part b, the rate preference treatment has been extended to SOA dropship editorial pounds to maintain consistent rate relationships. I do not consider SOA dropship editorial pounds any less deserving of such special consideration than SOA advertising pounds.
- f. Please see my responses to parts b and e.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T-35-5** Please refer to your rate design workbook "R2006-1 Outside County.xls" (in USPS-LR-L-126), sheet 'Pound Data\_Ed,' cell C22. Please explain the meaning and the role of the figure "0.203" in the cell.

**RESPONSE:**

The formula in cell C22 was not linked to cell C8 in order to avoid a circular reference, but the cell should have been updated to the proposed average editorial pound rate of \$0.232. Errata will be filed shortly. This correction does not cause material changes to rates or rate design.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T35-6** Please refer to page 9 of your testimony (USPS-T-35), lines 20-24, where you say: "In order to make sure that the ECSI value from editorial pounds is recognized and reflected in rate design, an adjustment of \$0.013 is applied to the average editorial pound rate. The revenue leakage caused by this adjustment is added back to the total revenue required from the pound side and allocated to both the editorial and advertising sides." See also your rate design workbook "R2006-1 Outside County.xls" (in USPS-LR-L-126), sheet 'Pound Data\_Ed,' cells C45 through C47, and dependent cells.

- a. In reference to cell C45, please explain how you developed the "adjustment" of 0.013 that you propose. Specifically, what is it that signaled you that an adjustment was needed and how did you develop the size of it? Please include copies of any analysis you did of the size and the adequacy of the recognition of ECSI value.
- b. Please provide a walk-through indicating where and how you apply the "adjustment" of 0.013 to any "average editorial pound rate" in your spreadsheets
- c. Please confirm that you calculate the "revenue leakage caused by this adjustment" as the sum of 0.013 times the pounds of non-SoA editorial zones 1-2 and above plus 0.013 times the pounds of SoA editorial above zones 1-2, as shown in cells C46 and C47.
- d. In postal parlance, a leakage would exist if the pounds referred in part c were charged 1.3 cents per pound less than they would have been otherwise. Please show where in your spreadsheets the "otherwise" rate is.
- e. Assume that the recognition of ECSI value takes place by making the rates for editorial pounds lower than the rates for advertising pounds. If, as you suggest, the leakage value "is added back to the total revenue required from the pound side and allocated to both the editorial and advertising sides," please explain how and to what extent this adjustment increases the recognition of ECSI value. Please be specific about the separate effects this procedure had on the pound rates for both advertising and editorial pounds, and on the difference between them.

**RESPONSE:**

- a. The 0.013 adjustment was developed to mitigate the rate impact on heavier publications with higher editorial content. The goal is to strike a balance between encouraging / rewarding Periodicals mail to be entered closer to the destination and not overly burdening those who are not capable of doing so. The

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

TW/USPS-T35-6, Page 2 of 3

adjustment was made to bring the rate increase for unzoned editorial pounds closer to the average rate increase.

- b. The 0.013 adjustment has been applied to Cell C8 in worksheet "Pound Data\_Ed," which is the average editorial pound rate.
- c. Confirmed.
- d. The "otherwise" rate would have been 0.245, which is not present in the workbook. It can be easily calculated by removing the 0.013 adjustment from Cell C8 in worksheet "Pound Data\_Ed".
- e. A general goal in rate design is to strike a balance between providing incentives to appropriate mailer activities and not unduly harming nonparticipating customers. There are several proposals in this rate design: the introduction of editorial pound dropship rates and a container rate, and the elimination of per-piece pallet discounts, along with the elimination of the experimental discounts for co-palletization. Encouraging efficient mail preparation and more worksharing with the right pricing signals is not a simple task. It is a balancing act among providing new incentives so that mailers will adopt more efficient practices, maintaining pricing incentives so that those who already workshare will continue to do so, and not overly burdening those who are not able to take advantage of the incentives.

In this particular case, as I mentioned in response to part a, the adjustment brought the rate increase for unzoned editorial pounds closer to average rate increase, instead of a 20 percent increase under the "otherwise"

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

TW/USPS-T35-6, Page 3 of 3

rate. By adding back the revenue leakage "to the total revenue required from the pound side," the burden can be shared by the overall pound segment so that the rate increases on both the advertising and non-advertising sides can be kept at a reasonable level.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T35-7** Please refer to your rate design workbook "R2006-1 Outside County.xls" (in USPS-LR-L-126), sheet 'Pound Data\_Adv,' cells D58 and D59. These cells appear to divide a transportation cost by the volume associated with that cost. Please explain the role of the factor "0.75" in these cells, which appears to reduce the number of pounds below the level that actually exist.

**RESPONSE:**

The factor "0.75" was applied to Science of Agriculture (SOA) dropship advertising pounds in cells D58 and D59 to allocate transportation cost per pound. Since the SOA dropship advertising pounds pay 75 percent of the respective regular dropship pound rates, using this factor is a method to account for revenue leakage. This approach is consistent with the methodology adopted by the PRC in Docket No. R2001-1. The same factor was applied to the same rate cells in PRC-9-OC.xls in PRC-LR-9, spreadsheet "Pound Data\_Adv" (cells D58 and D59).

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T35-8** Please refer to your rate design workbook "R2006-1 Outside County.xls" (in USPS-LR-L-126), sheet 'Piece Discounts,' cell C3. Please explain whether the Ride-Along revenue deducted should be at proposed rates instead of at current rates.

**RESPONSE:**

The ride-along revenue deducted should be at the proposed rate of \$0.155 instead of at the current rate. Errata will be filed shortly.

RESPONSE OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T35-9** You propose to establish a container charge equal to 85 cents per container. Please state how the charge will be applied in the following situations and explain the reasoning behind your answer.

- a. Assume a letter shaped publication is entered in letter trays. Will there be a charge of 85 cents per tray? If no, why not?
- b. Assume a small flats shaped publication is entered in flats tubs. Will there be a charge of 85 cents per tub? If no, why not?
- c. Assume that a Periodical mailer brings to a postal plant a truck in which flats bundles are bed loaded, requiring postal employees to go inside the truck to manually retrieve the bundles. Will this mailer avoid the container charge altogether? If no, what kind of charge will he pay?
- d. Assume that a periodicals mailer enters flats bundles in APC's or other rolling containers. Will there be a container charge for the use of each container?

**RESPONSE:**

Most Periodicals items are entered into the mail stream in sacks or on pallets. We are still *developing the rate implementation rules* for the small remaining portion of containerization options, such as bedloaded bundles, tubs, trays, and APCs.

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS RACHEL TANG TO INTERROGATORY OF TIME WARNER INC.

**TW/USPS-T35-10** Please refer to your response to TW/USPS-T35-4 concerning the Science of Agriculture (SoA) rates you propose, and to the current and proposed SoA rates, Request, Attachment A, p. 33, Rate Schedule 421.

You say the newly proposed benefit in the SoA editorial pound rates (for destination-entered pieces [i.e., those entered in zones 1&2, DADC, DSCF, and DDU]) is "to maintain rate relationships between the regular and SOA dropship pound rates so that the SOA editorial dropship pound rate structure mirrors that of the SOA advertising pounds."

- a. With regard to *editorial* pound rates, the current rate relationship between regular and SoA is that both pay the same unzoned editorial pound rate of 20.3 cents per pound. Is this a rate relationship that you seek to "maintain"? If it is, please explain how you have maintained it. If it is not, please explain what relationship between the editorial pound rates for regular and SoA you wish to maintain.
- b. With regard to *advertising* pound rates, the current rate relationship between regular and SoA is that SoA pays pound rates that are approximately 75 percent of the regular pound rates. Is this a rate relationship that you seek to "maintain"? If it is, please explain how you have maintained it. If it is not, please explain what relationship between the advertising pound rates for regular and SoA you wish to maintain.
- c. With regard to whether the proposed SoA editorial pound rates "mirror" those of SoA advertising, for destination-entered pieces: the four destination-entry rates (in cents per pound, in the order listed above) for SoA editorial are 17.4, 15.7, 14.4, and 11.5, and the corresponding rates for SoA advertising are 20.9, 18.8, 17.2, and 13.6.
  - (i) Please explain the test you would apply to determine whether these two rate structures "mirror" each other.
  - (ii) Please explain why any other set of declining rates for editorial would not "mirror" just as well the declining rates for advertising.
  - (iii) Please explain what is unique or particularly advantageous about the "mirror" relationship you have selected.
- d. Consider the dropship discount received by editorial pounds moving from zone 5 to DSCF. Under the proposed rates, the pound rates for regular editorial decline from 23.2 cents to 19.3 cents, a difference of 3.9 cents per pound. Similarly, the corresponding pound rates for SoA editorial decline from 23.2 cents to 14.4 cents, a difference of 8.8 cents per pound.

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS RACHEL TANG TO INTERROGATORY OF TIME WARNER INC.

TW/USPS-T35-10, Page 2 of 3

- (i) Do you agree that under the current rates, the zone-5 to DSCF dropship discounts received by both regular and SoA editorial pounds are the same, at zero cents per pound. If you do not agree, please explain.
- (ii) Do you agree that, relative to current rates, the zone-5 to DSCF dropship discount for SoA editorial pounds is being increased by 8.8 cents per pound and that of regular editorial is being increased by only 3.9 cents per pound, the former being 2.26 times as much? If you do not agree, please explain.
- (iii) Please explain why SoA editorial pounds should receive a dropship discount that is 2.26 times the dropship discount received by regular editorial pounds ( $2.26 = 8.8/3.9$ ).
- (iv) Do you agree that zone 5 is not unique in this respect, and that the same results would obtain under your proposed rates for any zone from (and including) zone 3 through zone 8? If you do not agree, please explain.

**RESPONSE:**

a - c. Currently, the relationship between regular and Science of Agriculture (SoA) rates for advertising pounds is that SoA pound rates for the nearer zones, including DDU, DSCF, DADC, and zones 1 & 2, are based on 75 percent of the pound rates for their regular counterparts. Under the proposal, the Postal Service is introducing separate editorial pound dropship rates for DADC, DSCF, DDU, and zones 1 & 2. The "mirror" proposed has two parts: first, a rate structure that introduces editorial pound dropship rates for DADC, DSCF, DDU, and zones 1 & 2, for both regular and SoA; second, the extension of the 75 percent rate relationship to the proposed corresponding dropship rates for SoA editorial pounds. As I said in my response to TW/USPS-T35-4(e), "... the rate preference treatment has been extended to SOA dropship editorial

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS RACHEL TANG TO INTERROGATORY OF TIME WARNER INC.

TW/USPS-T35-10, Page 3 of 3

pounds to maintain consistent rate relationships. I do not consider SOA dropship editorial pounds any less deserving of such special consideration than SOA advertising pounds." So I seek to maintain and extend the 75 percent rate relationship, and maintain the unzoned editorial pound rate, to the extent consistent with the new dropship discounts.

d.

- (i) Yes, I agree, since under the current rates, both regular and SoA editorial pounds pay the same unzoned rate of 20.3 cents per pound.
- (ii) No, I do not agree. Though the editorial pound rate differentials between the zone 5 rate and DSCF dropship rate are 8.8 cents and 3.9 cents for SoA and regular editorial pounds, respectively, under the current rates there are no DSCF dropship pound rates for SoA or regular editorial pounds to serve as the base for comparison. Therefore, it is not a meaningful comparison to state "relative to current rates, the zone 5 to DSCF dropship discount for SOA editorial pounds is being increased by .... and that of regular editorial is being increased by ...". The rate structure has been changed and new dropship editorial pound rates are being introduced under the proposal.
- (iii) Please see my response to (ii). This results from the transition to new dropship rates in which the 75 percent rate relationship is extended to SoA editorial pounds.
- (iv) Please see my response to (ii). I agree that Zone 5 is not unique.

1                   CHAIRMAN OMAS: This brings us to oral  
2 cross-examination.

3                   MR. RUBIN: A procedural matter. I do want  
4 to indicate that yesterday the Postal Service filed  
5 revised responses to MPA Interrogatory T-35-13 and  
6 T-35-17 and with the agreement of counsel we  
7 substituted those responses into the packages that  
8 were provided to the reporter.

9                   CHAIRMAN OMAS: Okay. Thank you.

10                  Mr. Bergin?

11                  MR. BERGIN: Mr. Chairman, if I may I just  
12 want to clarify for the record McGraw-Hill did not  
13 have an opportunity to designate its Interrogatories 6  
14 through 15 to Witness Tang, but understanding is that  
15 those have been included in the record and that I need  
16 do anything further to ensure their admission into the  
17 record.

18                  CHAIRMAN OMAS: Is that correct, Mr. Rubin?

19                  MR. RUBIN: Yes. Those responses are in the  
20 packages as well as responses to MPA 27 and 28 that  
21 were filed yesterday.

22                  CHAIRMAN OMAS: Thank you. Is there  
23 anything additional that we need to take in before we  
24 begin oral cross-examination?

25                  Mr. Strauss?

1           MR. STRAUSS: Mr. Chairman, I guess this  
2 relates to our earlier discussion about the missing  
3 table in the hearing room. In the past it's my  
4 recollection which is fading that there was a list  
5 available to the parties of those interrogatory  
6 responses that have been designated for the witness  
7 and they usually were on the missing table. Thank  
8 you.

9           CHAIRMAN OMAS: I will check into that, Mr.  
10 Strauss. I am aware that I'm no longer to say in my  
11 opening remarks that there is a table at the rear of  
12 the room that has various and sundry items, so I will  
13 explore that with staff after the hearing today and  
14 hopefully will address that tomorrow morning if that  
15 meets with your approval?

16           MR. STRAUSS: That's fine.

17           CHAIRMAN OMAS: Thank you.

18           MR. STRAUSS: It is helpful though to the  
19 parties I think to have a list of those  
20 interrogatories that were designated so in case  
21 there's some glitch because otherwise we don't even  
22 get to see what's been handed to the reporter or the  
23 witness.

24           CHAIRMAN OMAS: Okay. Very good. I'm told  
25 that copies are left on the counsel's table. That's

1 the new table.

2 MR. STRAUSS: There was nothing here for  
3 Witness Tang. Okay. They were absconded with by  
4 standard mail lawyers.

5 CHAIRMAN OMAS: Well, I had no idea. They  
6 will be on the table. So we'll have to double check  
7 that in between breaks.

8 MR. STRAUSS: While we're talking about  
9 furniture these chairs are way too comfortable for  
10 cross-examiners.

11 CHAIRMAN OMAS: I couldn't agree with you  
12 more.

13 MR. STRAUSS: You're going to drag out the  
14 hearing.

15 CHAIRMAN OMAS: Try sitting up here. With  
16 that this brings us to oral cross-examination. Three  
17 participants have requested oral cross-examination:  
18 American Business Media, Mr. Strauss; Magazine  
19 Publishers of America Incorporated and Alliance of  
20 Nonprofit Mailers, Mr. Levy; McGraw-Hill Companies  
21 Incorporated, Mr. Bergin.

22 Mr. Strauss, would you please begin?

23 MR. STRAUSS: Certainly. Thank you.

24 //

25 //

1 CROSS-EXAMINATION

2 BY MR. STRAUSS:

3 Q Good afternoon, Ms. Tang.

4 A Good afternoon.

5 CHAIRMAN OMAS: I do have one other. The  
6 National Newspaper Association has informally  
7 indicated that they would probably like time to cross-  
8 examine. Ms. Rush would like to cross the witness  
9 today.

10 BY MR. STRAUSS:

11 Q I advised your counsel a day or two ago that  
12 I would be restricting my cross-examination to your  
13 answers to interrogatories and I expect that I will  
14 probably live up to that promise, so let's start at  
15 the beginning with your response to ABM Question No.  
16 1. That's ABM/USPS-T-35-1. You there?

17 A Yes.

18 Q In response to this question and others  
19 concerning some data the Postal Service put out with  
20 respect to their rates let me ask you first that data  
21 were intended to show weren't they what the impact of  
22 the rate proposals would be on periodicals?

23 A It's only a hypothetical example of what the  
24 postage might be for a piece of mailing that happens  
25 to have those characteristics described.

1           Q     You're making a distinction between these  
2 prices being put out to show impacts on periodicals  
3 and now you're saying well, this is the impact on a  
4 piece mailed by a periodical mailer. How does knowing  
5 what a single piece would cost give out any  
6 information at all to mailers about what to expect the  
7 impact will be of the proposed rates?

8           A     Well, I think probably many of those who is  
9 in this room today are aware of how complicated to  
10 calculate periodicals postage. Even a single mailing  
11 might have a mixture of those pieces that bear  
12 different characteristics based on presort levels,  
13 jobs or profiles, and if it's automation, and if it's  
14 letter shaped or if it happens to be a flat.

15                     So in order to estimate what the impact is  
16 going to be a on a specific publication I have to make  
17 a lot of assumptions and also have to construct what a  
18 mailing is supposed to look like.

19           Q     Well, didn't you in fact run your proposed  
20 rates against actual specific publications at some  
21 point in the process? Actual mailing data for  
22 actuals, not hypothetical publications?

23           A     Yes and no. I did answer in my response to  
24 POIR No. 6, Question No. 1. I did calculate seven  
25 publications based on all the assumptions I have to

1 make so that they would resemble to some degree if  
2 it's going to be a nonprofit publication, if it's  
3 going to be a science of agriculture, but they're not  
4 designed or they're not meant to match the specific  
5 characteristics of a specific publication.

6 Q The Postal Service has mailing data for  
7 every publication, right?

8 A My understanding is there is a system that  
9 captures such data, yes, if it's entered  
10 electronically.

11 Q Well, if it's not entered electronically  
12 doesn't a mailer file a Form 3541 with a mailing of a  
13 periodical?

14 A Yes, I suppose so.

15 Q That has all the billing determinants on it,  
16 doesn't it?

17 A Yes.

18 Q If you wanted to calculate the postage, the  
19 change on a particular publication, let's say X  
20 publication, you could say to somebody who works for  
21 you get me the 3541 for X publication so we can run  
22 before and after rates, right?

23 A Technically yes, but do keep in mind I'm not  
24 designing rates for specific publications.

25 Q You're testing the impacts of rate increases

1 on specific publications aren't you? Let me restate  
2 that. Isn't it part of your responsibility to assess  
3 the impact of the proposed rates on specific  
4 publications?

5 A Yes. On a group of publications.

6 Q Well, the only way to do a group is to do a  
7 few individuals in the group isn't it?

8 A Yes.

9 Q You say that this example in Question 1 is  
10 purely hypothetical. Where did you get the numbers?  
11 I mean, where did you get the 40 percent advertising  
12 and the billing determinants that produced the 17.9  
13 cents and the 20 cents?

14 A Are you referring to my response to POIR 6  
15 or are you referring back to your interrogatory?

16 Q I'm referring to the document that my  
17 interrogatory refers to. The document that allegedly  
18 showed the postage change for a typical news weekly.  
19 The question is you constructed those rates and in  
20 response to another interrogatory you actually showed  
21 us the calculations.

22 A That's correct.

23 Q Right. This is a purely hypothetical  
24 publication, so how did you know what to use for  
25 weight, for editorial content and the like? Where did

1 you get those numbers from?

2 A Well, one way to do that and I've taken this  
3 approach is to get the information from billing  
4 determinants. For example if you want me to -- let's  
5 say if we want to see what's the average editorial  
6 content is for a regular rate outside county  
7 periodical piece then it will be a safe assumption  
8 that at least one piece in that group should have such  
9 characteristics.

10 Q So you didn't try to get anything typical?  
11 You just picked something that existed within the  
12 several million copies of news weeklies? I didn't  
13 follow that. I mean, I think you started with the  
14 proposition that this was going to be an example for a  
15 weekly news magazine. So did you try to find out what  
16 was typical for a weekly news magazine?

17 A I think the proper way to answer your  
18 question is this example is meant to show what the  
19 postage is likely going to be for a weekly magazine  
20 and like I said even one single mailing of such a  
21 weekly magazine might have different combinations and  
22 this is one piece among thousands and thousands of  
23 pieces that bear such characteristics.

24 It's not meant to be typical or  
25 representative of a specific publication or a type of

1 publication.

2 Q So the example you give of a weekly news  
3 magazine is not expected to be typical of a weekly  
4 news magazine. Is that correct?

5 A It's not designed to be typical.

6 Q Okay. The same thing would go then I assume  
7 for the journal of opinion, the data presented by the  
8 Postal Service to show the change in rates for a  
9 journal of opinion? Those data are not based on  
10 characteristics that are represented to be typical of  
11 a journal of opinion?

12 A Well, one of the assumption we made such as  
13 the high editorial content certainly I think would be  
14 common for opinion journals.

15 Q So for opinion journals you did try to get  
16 typical data, but for a news weekly you did not?

17 A It's an assumption. It's not trying to get  
18 or trying not to get. I would like you to define the  
19 word typical.

20 Q If I use it again I'll be sure to define it.  
21 I'm sort of now on to Question 2, which is the opinion  
22 journal example of rate change. Again, these data  
23 were presented by the Postal Service when it made its  
24 filing in order to illustrate the price change on a  
25 single piece of mail. Is that correct?

1           A     As an example, yes.

2           Q     What would be the relevance to the public  
3 that received this information or a mailer for that  
4 matter of knowing what the change in postage would be  
5 for that particular piece?

6           A     I think it's stands for illustrative  
7 purpose, and it's easy to understand, it's not that  
8 complicated and it sure bears some example I'm certain  
9 that have some characteristics that a mailer or a  
10 customer can relate to.

11          Q     Why did you use an SCF entry on a pallet for  
12 the news weekly, but used sacks and presumably origin  
13 entry for the opinion journal?

14          A     Again, I think either it's on the pallet or  
15 it's a sack is an assumption I made and it's probably  
16 more commonly associated with a weekly magazine or  
17 with an opinion journal. It's not meant to say that a  
18 weekly magazine cannot be in a sack. It's just for  
19 the illustrated purpose we chose a weekly magazine  
20 piece that happened to be on a pallet entered at SCF.

21          Q     You also happened to call it a news weekly.  
22 There must have been a reason for that. What was the  
23 reason you called it a news weekly? Is it because it  
24 was a lot like *Time* and *Newsweek*?

25          A     No. That's not what I have in mind.

1 Q Well, how many news weeklies are there?

2 A I do not know.

3 Q How many news weeklies are there that have  
4 enough volume to mail 2,000 piece pallets with SCF  
5 entry?

6 A I already responded in my response that I do  
7 not calculate these rates for them to be typical or  
8 trying to show what proportion of the mail is --

9 Q Well, I'm trying to find out now you say a  
10 news weekly and these would be some characteristics of  
11 and one of those characteristics is 2,000 pound  
12 pallets of SCF entry. Do you think there are any news  
13 weeklies in this country other than *Time*, *Newsweek*,  
14 *Business Week*, and *U.S. News* that would have enough  
15 volume to be mailing 2,000 piece pallets with SCF  
16 entry?

17 A Yes. I think it's possible.

18 Q Can you name any?

19 A No, I can't.

20 Q In ABM Question 4 we asked you about a  
21 different Postal Service document with a different  
22 kind of estimate for a different type of periodical,  
23 do you recall that?

24 A Did you say a different type of  
25 documentation?

1           Q     Well, it was not the same document that  
2 showed the news weekly, the newspaper and the journal  
3 of opinion, it was a different document.

4                     You don't have to answer the question. I'll  
5 withdraw it. It was just a lead-in. I'm not trying  
6 to trick you into anything.

7                     Tell me where the billing determinants came  
8 from for this example, the five digit, what were the  
9 billing determinants that went into the differential  
10 rates that were calculated by the Postal Service. It  
11 was the five-digit pre-sort, if you remember. I think  
12 it was 50 percent editorial.

13                    Where did these hypothetical numbers come  
14 from? Why did you pick those?

15           A     Are you referring to the eight ounce five  
16 digit auto mailing sacks with 40 pieces in a sack  
17 which have 40 percent advertising content and 60  
18 percent editorial?

19           Q     Exactly. Those are very specific billing  
20 determinants and you grouped them together to come up  
21 with presumably a publication that is something like  
22 real publications. I'm just wondering where that  
23 combination of billing determinants came from.

24           A     Well, as I said in my response this piece is  
25 just a hypothetical example.

1           Q     But you could do a hypothetical example with  
2     one percent advertising. You could have done one  
3     percent advertising and three digit pre-sort and 2,000  
4     pound pallets with 6,000 pieces. There are a lot of  
5     hypotheticals. This group of criteria were presumably  
6     picked for a reason, not from a random number table.  
7     The fact that it's hypothetical doesn't really answer  
8     my question about where these hypothetical examples  
9     came from.

10           I'm not suggesting you looked at a  
11     particular 3541 and this is what you found. I'm  
12     suggesting that somebody at the Postal Service decided  
13     that this group of mailing characteristics was in some  
14     way representative of real periodicals out there.

15           A     I think, again, it's not selected to be  
16     representative or typical, but I can be certain that  
17     40 percent advertising, 60 percent editorial is  
18     probably more representative than one percent  
19     advertising you just mentioned.

20           Q     Ms. Tang, the Postal Service put out this  
21     information to try to show that don't worry you guys  
22     who are facing really big increases, if you only co-  
23     palletize and drop ship you can actually reduce your  
24     postage.

25           Wouldn't you expect that the Postal Service

1 would use as an example something that's real and not  
2 randomly determined? Something that's typical or  
3 representative of the kinds of publications to which  
4 it was making this appeal?

5 A Are you suggesting that this piece is not at  
6 all representative or --

7 Q I'm trying to get you to say that it is.

8 A Like I said, although it's not selected to  
9 be purely representative or typical, but I do think 60  
10 percent editorial is a common characteristic that you  
11 see in the five digit eight ounce piece.

12 Q But is it also typical to see pieces with  
13 all of those characteristics that were used by the  
14 Postal Service in this example?

15 A What do you mean by all the characteristics?

16 Q The fact that it's in sacks, the fact that  
17 it's got five digit automation, the fact that it's 60  
18 percent editorial, the fact that it's eight ounces.  
19 Somebody selected this group of criteria. The  
20 question is did they do it to be representative of  
21 something?

22 Presumably the other ones were provided to  
23 be representative of news weeklies, you had data  
24 representative of newspapers, you had data  
25 representative of journals of opinion. What was this

1 representative of?

2 A It represents a piece with such  
3 characteristics.

4 Q You could have said that for the journal of  
5 opinion. Those data represented those pieces and the  
6 news weekly represented those pieces, but there were  
7 labels put on those. News weekly, newspaper, journal  
8 of opinion. What's the label for this one?

9 A Let me see. It's called periodicals.

10 Q Okay. We'll move on.

11 Please look at question six in your  
12 response.

13 (Pause).

14 Are you there?

15 A Yes.

16 Q Again, in response to the question you talk  
17 about the example of the postage that could be paid by  
18 this hypothetical periodical if it were to drop ship  
19 and co-palletize and you say it's purely a  
20 hypothetical example and that the sole purpose of this  
21 example was to show that the prices include features  
22 that could reduce postage and that the proposed rates  
23 provide mailers and menu of options to choose from.

24 So is it your testimony that the co-  
25 palletized drop ship rate applies to particular

1 hypothetical pieces but you have no knowledge of what  
2 percentage of a publication of the nature you describe  
3 would actually be able to meet these characteristics,  
4 in other words would be able to drop ship to a DADC?

5 A Are you asking me how likely a co-palletized  
6 piece is drop shipped at DADC?

7 I think I responded to one of your other  
8 questions and I gave the percentages of co-pal  
9 publications that are drop shipped at DADC or DSCS  
10 according to the co-pal report I received from  
11 mailers.

12 Q I'm aware of that other question but I'm  
13 looking at this question. The second part of question  
14 part A was, "If not, please estimate the percentage of  
15 the copies mailed that can achieve DADC entry."

16 You gave no quantitative answer or really no  
17 answer at all to that part. I wasn't talking about,  
18 in this question, those publications that have already  
19 co-palletized but the whole purpose here was to show  
20 that if those who do not co-palletize in fact do they  
21 can save some money.

22 So my question then and now remains whether  
23 you have any indication that this purely hypothetical  
24 piece that could save a few cents a copy would be the  
25 bulk of the mailer's pieces or a small portion of the

1 mailer's pieces if he in fact did co-palletize and  
2 drop ship.

3 A I think it's not impossible to imagine that  
4 in the whole universe of periodicals there would be a  
5 piece that's not co-palled and with the  
6 characteristics as you just described which would be  
7 able to drop ship at DADC. But I don't know what  
8 proportion.

9 Q Do you know whether for a typical magazine  
10 that meets these characteristics, that is in sacks,  
11 five digit auto, all of the characteristics we've gone  
12 over, do you have any idea whether if the publishers  
13 of all of those kinds of magazines decided to co-  
14 palletize and could find a printer to do it, whether a  
15 high percentage or a low percentage of their pieces  
16 would actually make a DADC pallet?

17 A I really do not have such information and I  
18 don't want to speculate and you agreed to define  
19 typical for me the next time you brought up that word.

20 Q I don't think I did. I said all of the  
21 publications that meet these characteristics, not the  
22 typical publication. But we can move on.

23 If I were to use the word major news weekly  
24 magazine, would you have trouble with that concept?  
25 Or should I define that?

1           A     How major?

2           Q     Let's say a news magazine with more than a  
3 million circulation.

4                     Are the copies of such a magazine presently  
5 co-palletized and drop shipped?

6                     Did I say co-palletized?  If I did, I'm  
7 sorry.  I meant palletized and drop shipped.

8           A     I would think so.

9           Q     Please look at ABM Question 8 and your  
10 response to that question.

11                     (Pause).

12           Q     I thought the question was one of the more  
13 straight forward questions we asked.  I'll read it  
14 again.

15                     "Please confirm that based upon the charts  
16 distributed in May 2006 by the Postal Service the  
17 mailer of a typical eight ounce five digit pre-sort  
18 sacked publication will pay postage of 31.2 cents per  
19 copy at the proposed rate but only if it also pays the  
20 cost of co-palletization or co-mailing program and the  
21 cost of drop shipping and will pay 38.1 cents per copy  
22 if it incurs neither of these costs.  If you cannot  
23 confirm, please explain why."

24                     Your answer is simply a cross-reference to  
25 your answer to Question 7, and I have no idea how the

1 answer to 7 answers this question.

2 The answer to 7 was, "It is my understanding  
3 that the sole point of this example is to show a  
4 typical price change. No assumptions were made  
5 regarding the need to change mail preparation or the  
6 need to co-palletize or co-mail."

7 That was a question concerning news  
8 weeklies. This is a totally different question  
9 pertaining to the example of what happens if you drop  
10 ship and co-palletize.

11 So could you either explain how the answer  
12 to 7 answers 8 or just answer 8?

13 (Pause).

14 A I have to refer back to my, the original  
15 charts.

16 (Pause).

17 A Your question is asking me to confirm there  
18 would be a cost associated if it decides to co-pal.

19 Q No, that wasn't the question.

20 Read Question 8 again. You don't have to  
21 read it out loud. Just read it to yourself.

22 (Pause).

23 A As I said in my response to one of your  
24 other questions, I understand that mailers, there will  
25 be cost associated with co-mailing or co-palletization

1 and that's an integral part of doing business. The  
2 hypothetical example only shows what the postage is  
3 going to change if they adopt new practice.

4 I do not have further information on what's  
5 the arrangement between those co-palletization or co-  
6 mailing practice between the mailer and their vendor  
7 or service provider so I really, I cannot say how much  
8 it pays, if it pays, whom it pays.

9 Q The question doesn't ask any of that. All  
10 the question asks is whether the mailer will pay 38.1  
11 cents and can only pay 31.2 cents if it pays the costs  
12 of co-mailing and co-palletizing. It doesn't ask you  
13 what those costs are. It doesn't ask you whether  
14 they're more or less than the postage savings.

15 All it asks is whether the postage savings  
16 are available to that mailer only if it incurs the  
17 costs for drop shipping and co-palletizing. I can't  
18 for the life of me understand why you can't just say  
19 yes.

20 Isn't that what your chart shows?

21 A The question, you phrase your question says  
22 but only if it also pays the costs, and I'm not 100  
23 percent sure about that. I don't really know what the  
24 arrangements between that specific publication and the  
25 service provider is and also like I said in my

1 response to your other questions, the incentives are  
2 designed to provide options for mailers to decide if  
3 it makes sense for them to co-pal or co-mail, and I  
4 believe those who participate probably have weighed  
5 the options and decided it's to their advantage and  
6 the net savings is worth while.

7 Q Is the problem here that you're not sure  
8 that somebody actually has to pay for co-palletizing  
9 and drop shipping, that they might get it for free?  
10 Is that why you won't say yes?

11 Let me ask the question this way. Isn't it  
12 true that a mailer can move from 38.1 cents to 31.2  
13 cents in the Postal Service's example only if it co-  
14 palletizes and drop ships?

15 A For that specific publication and shown in  
16 whatever assumption we come up with, the answer is  
17 yes.

18 Q When I asked you before about whether the  
19 Postal Service in the process of developing its rates  
20 used actual realized not hypothetical examples of  
21 publications to figure out what the impacts would be  
22 you referred to your answer to one of the information  
23 requests where you did it for six or seven  
24 publications, is that right?

25 A It's seven examples but they are not actual

1 publications.

2 Q Let me ask you what you means when you  
3 answered MPA Question T35-7. I'll quote a sentence,  
4 and I don't believe I'm taking it out of context. Or  
5 two sentences.

6 "In the process of rate design I applied the  
7 proposed rates to a number of the postage statements  
8 of the co-palletized to co-mailed magazines to assess  
9 the postage impact."

10 So in that case you did actually run real  
11 publications, right?

12 A Yes.

13 Q But at that time you didn't do the same  
14 thing for non-co-palletized publications? The only  
15 time you ever ran real life publication data in  
16 response to the information request?

17 A The reason I did such assessments is for the  
18 purpose of making sure that the incentives and the  
19 rates in this proposal is going to gives those co-  
20 palletization participants comparable incentives so  
21 they will continue to do the right thing.

22 Q When the Postal Service, you said in  
23 response to a later interrogatory that impact on  
24 mailers is one of the considerations in rate design,  
25 did you not?

1 A I did say that.

2 Q And you still believe that?

3 A Of course.

4 Q To consider the impact on periodical mailers  
5 from the proposed rates and rate design, wouldn't it  
6 be appropriate to take some examples of periodicals  
7 and see what the impacts would be of those rates in  
8 the rate design?

9 Doing it in real life, not purely  
10 hypothetical examples.

11 A If I can borrow your term typical, I think a  
12 fair assessment would be the overall rate increase if  
13 you are referring to the impact to mailers in general.

14 Q You think that, and I'm not asking you for a  
15 legal opinion, but the way you complied with the legal  
16 requirement for assessing the impact was looking at  
17 the average increase for periodicals, not the range of  
18 increases for periodicals?

19 (Pause)

20 A What do you mean by saying the word range?  
21 For a specific publication or for a group of them?

22 Q For publications in general. You testified  
23 in the Time Warner complaint case, did you not?

24 A Yes, I did.

25 Q And you testified there about the impact of

1 certain proposals on very small circulation  
2 publications, did you not?

3 A Yes, I did.

4 Q You didn't just testify about the average  
5 impact on all publications of the proposals, did you?

6 A No, we didn't.

7 Q Did you in this case look at the impact of  
8 your proposal on very small publications?

9 A Yes, I did.

10 Q Did you do that though without running any  
11 actual publication data?

12 A I actually used the same group of  
13 publications I used for the Time Warner case. I ran  
14 the proposed rates. I even assessed the proposed  
15 container rates to see what impact is going to be on  
16 different groups of publications.

17 Q Did you use hypothetical data or real data?

18 A They are the sample publications that  
19 presented to the Commission in the Time Warner case.  
20 They are the real publications.

21 Q I don't want to appear argumentative or be  
22 accusing of anything, but that sounds to me  
23 inconsistent.

24 You said before you didn't run any real  
25 publications and now I think you said you did. Where

1 am I wrong?

2 A Well, it's actually, I'm actually answering  
3 your question about the range. I'm not singling out a  
4 specific publication to see what the rate impact is  
5 going to be. I want to see the range of the impacts  
6 on a specific group so that we can balance the rate  
7 design and make sure nobody is going to bear any undue  
8 burden.

9 Q How do you do that unless you say here are  
10 the mailing characteristics of 25 publications and  
11 let's see what the impact is? How else can you figure  
12 out what that range is?

13 How did you figure out what the range is?

14 A I think the methodology of selecting those  
15 sample publications, if that's what you're referring  
16 to, has already been addressed in the Time Warner  
17 case.

18 Q I'm just trying to find out, Ms. Tang,  
19 whether you took real mailing data for real  
20 publications and said what are they paying under  
21 today's rates, what would they pay under the proposed  
22 rates, how big an increase is that?

23 You testified before that you didn't do that  
24 except in response to the information request, but now  
25 I think you're saying that it was done for a sample of

1 small publications. Like I said, I must be  
2 misinterpreting something you said because I believe  
3 that you're telling the truth but they just don't  
4 sound like the same answer to me. Usually lawyers  
5 don't give witnesses the opportunity to fix any  
6 inconsistencies. I'm begging you to fix this one.

7 A As I can recall your earlier questions  
8 actually were focusing on a specific publication and  
9 you asked me if there is any specific publication.  
10 You kept using the word typical. I guess I have to  
11 say I didn't design rates for a specific magazine but  
12 the Postal Service is mindful of what the rates impact  
13 is going to be. Not on a specific publication but to  
14 all the mailers as a whole.

15 Q Would I be correct in assuming that the  
16 range of impact, by that I mean there were some  
17 publications with relatively small percentage  
18 increases and others with larger percentage increases,  
19 that that range is acceptable? The range of impacts  
20 from the proposed rates here are acceptable to the  
21 Postal Service, you believe that it's fair and meets  
22 the statutory standards?

23 A Yes.

24 Q Do you believe that a range of impacts that  
25 is greater, that produces larger increases at the

1 upper end would also be fair and meet the statutory  
2 standards? Or have you reached sort of the upper  
3 limit of what you believe is fair in this case?

4 A It depends on your point of reference, I  
5 think.

6 For example, if you can still recall those  
7 range of postage increase for the small publication  
8 examples I constructed in the Time Warner case, some  
9 of them might reach 60 percent, 80 percent, and that's  
10 certainly would raise a red flag and grab my  
11 attention.

12 Q And the mailers'.

13 A I suppose so. And yours.

14 Q So 80 percent is unreasonable. I don't  
15 think anyone would disagree with that.

16 What I'm trying to get at is whether the  
17 Postal Service went as far as it thought it could  
18 fairly go in this case in making rate design changes  
19 that would have differential impacts depending upon  
20 the nature of the publication.

21 A The nature of the publication?

22 Q Yes. The nature of its mailing  
23 characteristics.

24 We already agreed that some publications  
25 would have higher percentage increases and some lower.

1 My question is did you reach the limit on the upper  
2 end of that range? Is that as high as you think it's  
3 fair to go?

4 You seem to be struggling. I'll re-ask the  
5 question.

6 It's possible that the Postal Service wanted  
7 to move 20 degrees in a certain direction, but moving  
8 20 degrees would produce impacts of the 80 percent  
9 that you said would be unreasonable, so you had to  
10 scale back and maybe make fewer changes or maybe the  
11 same number of changes but smaller in order to lower  
12 the impact, and that impact was the limiting feature.

13 It's also possible that you made every  
14 change you could possibly dream of wanting and still  
15 found the impact acceptable so that in that case it  
16 was not the impact that was the limiting feature but  
17 it was reaching the end of the desirable changes that  
18 was the limiting feature.

19 So what I'm trying to find out here is  
20 whether the limiting feature here was impact that you  
21 didn't want to go any further along a direction you  
22 would have liked to have gone in rate design, or  
23 whether the limiting factor was simply rate design and  
24 you made all the changes that you thought would be  
25 justifiable and in doing so it turns out that the

1 impact was just fine.

2 Do you understand the distinction I'm  
3 making?

4 A I think your statement is based on that the  
5 mailer or that specific publication was ignored or the  
6 price signals and incentives we continue to send to  
7 encourage more efficient practice and continue to do  
8 the same thing so that the rate increase on that  
9 mailer or specific publication is going to become  
10 significant?

11 Q No. I'm at a much higher altitude than that  
12 answer. At least I'm trying to fly higher.

13 When the Postal Service decides to change  
14 rate design dramatically as it's proposing in this  
15 case I'm sure it has some rationale for that and that  
16 there are reasons to give price signals, there are  
17 reasons to have different pass-throughs on work share  
18 discount, there are reasons for all these things.

19 The Postal Service could say in an ideal  
20 world, this is where we'd like to be. We'd like to be  
21 20 degrees away from where we are now, but if we do  
22 that the impact is going to be extraordinarily high on  
23 some people. And over the years the Postal Service  
24 has always, as far as I know, measured the impact and  
25 scaled down some proposals, smaller pass-throughs for

1 work share discounts in order to moderate rate  
2 increases, to avoid rate shock.

3 So my question is simply, I think it's  
4 simply, maybe it's not so simple, did the Postal  
5 Service go as far as it would want to go in rate  
6 design unconstrained by impact or did the Postal  
7 Service decide that it couldn't go as far as it might  
8 like to go because it reached the upper limit of  
9 reasonable impact?

10 A If I say the rate design it's a very  
11 complicated balancing act, will you be satisfied?

12 Q No. But I have no choice but to move on if  
13 that's the best answer you can give me, so we will  
14 move on.

15 Please turn to ABM Question 13 and your  
16 response.

17 A Okay.

18 Q We previously asked whether the Postal  
19 Service inquired about the costs of co-palletizing,  
20 actually in this question, and the answer I don't  
21 think is quite in line with the question.

22 The answer says, insofar as relevance, "The  
23 Postal Service does not possess or maintain data  
24 related to the costs to mailers participating in the  
25 co-palletization program."

1                   Let me just ask the same question again.  
2           Has the Postal Service ever inquired about such costs?

3           A       Not for rate making purposes.

4           Q       Part B of that question asked, I'll read it,  
5           it's easier than trying to characterize it.

6                    "Is it true that the Postal Service has no  
7           idea whether the costs of participating in a co-  
8           palletization program are much less than, slightly  
9           less than, the same as, slightly more than, or much  
10          more than the postage savings produced by co-  
11          palletization?"

12                   You gave a combined answer to A through C  
13          which in my mind sort of jumbles everything up and I  
14          don't know what your answer was to Part B, so could  
15          you please give your answer to Part B now?

16           A       As I said in the response, it is my  
17          understanding that internal operations vary from  
18          mailer to mailer and therefore their costs would vary  
19          too. And I am sure that the cost to mailers has been  
20          mentioned or discussed on various occasions but again,  
21          we do not possess or maintain data related to the  
22          costs nor the charges to mailers of participation in  
23          the program.

24                   We are aware that there is a cost to  
25          participate and this has been taken into consideration

1 in general in our rate design.

2 Q I was going to get to that. How was it  
3 taken into consideration?

4 A It is taken into consideration to provide  
5 adequate incentives and the co-palletization pool of  
6 all those participating publications actually I think  
7 it's safe to assume they have weighed their costs and  
8 benefits and decided it's worth their while.

9 Q But you have to know what the costs are to  
10 know whether the incentive is adequate, right?

11 A They will have to know their costs to decide  
12 if incentives are adequate.

13 Q I thought you said that the Postal Service  
14 thought that, the Postal Service concluded that the  
15 incentive is adequate. I'm asking whether the Postal  
16 Service would have to know about the costs in order to  
17 know whether the incentive is adequate.

18 A Let me rephrase that. I think I said it's  
19 safe to assume that the mailers probably have weighed  
20 their options and decided the incentives are good  
21 enough for them to make the decision to participate.

22 Q They haven't weighed their options yet  
23 because they didn't know what their options were until  
24 you made your proposal, isn't that right?

25 Your answer was in the past tense. We're

1 talking now about publications that don't co-palletize  
2 and whether your proposal gives them enough incentive.  
3 So I don't understand your answer talking about what  
4 they have done. They have to look at their future  
5 costs, the future incentive and see whether it's  
6 adequate. I thought you said the Postal Service  
7 determined it is, but you don't know the costs.

8 A No, I do not know their costs in particular,  
9 but as illustrated in all those examples you just  
10 brought up I think it's easy to assess what the  
11 incentives will be if they co-pal, and by just  
12 calculating the before postage comparing with the  
13 after postage.

14 Q Right, but you can't tell me whether three  
15 cents or six cents or ten cents or fifteen cents per  
16 piece is enough to provide incentives, can you?

17 A It's not possible for me to tell because  
18 costs vary from mailers to mailers and how can I be  
19 sure, I mean one might find the incentive adequate,  
20 the other one might find it otherwise.

21 Q I'm not asking you whether every mailer will  
22 find it adequate. Your answers say the Postal Service  
23 has no data at all on how much it costs. I'm not even  
24 saying sometimes it's two cents and sometimes it's  
25 three cents and sometimes it's six cents is data.

1 Your answer says you don't have any data at all on it.

2 So it's possible that for every mailer the  
3 cost exceeds the incentive, isn't it? If you have no  
4 data?

5 A Such data is not an input in my rate design  
6 workbook.

7 Q The question wasn't whether you used it, the  
8 question was whether you have it, and the statement in  
9 your answer was, "The Postal Service does not possess  
10 or maintain data related to the costs nor the charges  
11 to mailers."

12 It didn't ask you whether you used it, it  
13 asked you whether you have it. Your answer was you  
14 don't have it, and if you don't have it then you don't  
15 know whether any mailer will have enough incentive or  
16 whether every mailer will face that entire rate  
17 increase.

18 I'll move on, it's getting rhetorical.

19 Do you happen to know who participated in  
20 the discussions on various occasions of the co-  
21 palletizing costs?

22 You refer to "certain discussions" in your  
23 answer. I'm trying to find out who it was that was  
24 involved in those discussions.

25 A Such topic was brought up when I visited the

1 plants and I'm sure that it's my knowledge it came up  
2 at various meetings or gatherings, but I don't think  
3 you want me to name names and I don't think I'm able  
4 to.

5 Q Don't speak for me.

6 (Laughter).

7 Q You say you're not able to. Does that mean  
8 you're not willing to or you're not able to?

9 A Based on my own experience the topic came up  
10 on several occasions. I cannot be certain which  
11 mailer that was. I mean because on one trip I might  
12 stop at different plants and it has been a while. I  
13 couldn't be 100 percent sure.

14 Q Okay.

15 In response to Interrogatory 14 and orally  
16 today you mentioned the concept of publishers choosing  
17 not to co-palletize for whatever reason they choose  
18 not to. Isn't it also true that certain publishers  
19 cannot co-palletize?

20 A Yes.

21 Q What types of publications cannot be co-  
22 palletized?

23 A Those publications who weigh their options  
24 and decided the net benefits is not worth it.

25 Q No, they can be co-palletized. I'm not

1 talking about an economic decision not to co-  
2 palletize. I'm talking about a physical decision.

3 I'm talking about a publisher who possibly  
4 could save money if he could be co-palletized but  
5 simply cannot be co-palletized due to the nature of  
6 the publication.

7 Maybe I better re-ask the initial question.

8 Are there other types of publications that  
9 quite apart from the economics of measuring the rate  
10 saving versus the cost simply cannot be co-palletized  
11 with today's technology and with today's printers?

12 A Yes.

13 Q What types of publications?

14 A I do not know.

15 Q How do you know there are any?

16 A Because I cannot be 100 percent sure there  
17 aren't any.

18 Q Let's take an example of a small circulation  
19 weekly magazine that for service reasons is air-  
20 freighted by the publisher to be entered into the mail  
21 close to the destination. Do you know that there are  
22 such publications today?

23 The question is, do you know there are  
24 publications that are drop shipped by the publisher by  
25 air.

1 (Pause).

2 I can't help you any more --

3 Q I do not know.

4 Q You do not know if there are any such  
5 publications?

6 A I do not have the information to be certain  
7 if there is certain publications who are doing this or  
8 terre is not.

9 Q Let's assume that there are. Isn't it true  
10 that those publications cannot be co-palletized  
11 because one may not put pallets on airplanes?

12 A If the airplane doesn't allow pallets, than  
13 yes, they won't be co-pallet and still flying on the  
14 airplane.

15 Q I didn't ask -- You put an if before that.  
16 Do you know whether airplanes will accept  
17 pallets?

18 A No.

19 Q What about publications with circulations  
20 that are very small -- 500, 800, 1,000, 1,500 -- are  
21 they going to be able to find a printer to co-  
22 palletize them?

23 A It depends.

24 Q What about tabloids? Do you know what a  
25 tabloid is?

1           A     I've seen them on news stands, though I  
2     don't read them.

3           Q     I'm not talking about Star Magazine. I'm  
4     talking about a tabloid size publication. Larger, Ad  
5     Age, that kind of publication that's 13 or so inches  
6     high. Do you know whether tabloids, there are any  
7     printers today that have enough volume of tabloid-  
8     sized publications to perform co-palletization?

9           A     I do not know, but based on my experience I  
10    didn't see anything the co-palletization size.

11          Q     Did you assume in deciding that these rates  
12    were appropriate, this rate design is appropriate,  
13    that every publication can be co-palletized if the  
14    financial savings were there, the postage savings  
15    exceeded the costs?

16          A     I do not want to speak for the mailers, but  
17    it depends on if the decisionmaking priority is  
18    actually the incentive you just mentioned. There  
19    could be other factors that affect their  
20    decisionmaking process.

21          Q     One of your jobs is to assess rate design,  
22    but you didn't know whether there were publications  
23    that for service reasons must go by air and can't be  
24    co-palletized, so you clearly didn't consider the  
25    impact on any such publications, is that correct?

1           A     The Postal Service designs rates and makes  
2     sure it sends appropriate price signals but I cannot  
3     guarantee that if there is any incentives all those  
4     who can co-pay will actually co-pay.

5           Q     That wasn't my question. My question was  
6     since you did not even know the existence, and maybe  
7     there aren't any, since you testified that you don't  
8     know from your own knowledge if there are  
9     publications, weekly, smaller circulation publications  
10    that are air-freighted for service reasons, you  
11    couldn't possibly have assessed the impact on such  
12    publications of your rate design, could you?

13          A     Can you rephrase your question? Are you  
14    suggesting that their costs such as flying on an  
15    airplane should be taken into consideration when  
16    designing rates?

17          Q     No. You had a rate design. You said you  
18    assessed the impact of that rate design. I'm  
19    suggesting only that you couldn't possibly have  
20    assessed the impact of that rate design on a specific  
21    subset of publications that you to this day don't know  
22    whether it exists or not.

23                 If you don't know whether there are any  
24    publications being air-freighted, weekly publications  
25    being air-freighted, you can't have assessed the

1 impact on those publications, isn't that right?

2 A Well, air-freighted has never been such  
3 criteria when selecting publications for the purpose  
4 of assessing rates impact. Does that answer your  
5 question?

6 I cannot tell you that if all the  
7 publications we selected or sampled are air-freighted  
8 because it's not a search criteria, it's not a  
9 description. I cannot tell you that if there is any  
10 publication that is airlifted or terre is not  
11 because --

12 Q Well you didn't do any specific publications  
13 --

14 Never mind. I won't go back into that.

15 Did you specifically assess the impact on  
16 publications that simply cannot be co-palletized?

17 A No, I didn't.

18 Q You agree that the lowest combined cost to  
19 mailers is a consideration in rate design, did you  
20 not? In response to Question 15. I'm not trying to  
21 trick you here.

22 (Pause).

23 Q I'm looking specifically at 15(a) and that  
24 little sub-two where we asked whether certain factors  
25 should be considered. One was lowest combined cost.

1 Your answer was, "All of these are taken into  
2 consideration."

3 I'm just trying to set up the real question.  
4 You agree that lowest combined cost should  
5 be considered.

6 A Yes.

7 Q What does lowest combined cost mean to you?  
8 What's being combined?

9 A Postage, of course, is one part of it and  
10 for example if the co-pal, like you said, if they have  
11 paid to participate then that cost combined with the  
12 postage and maybe some other costs too will be the  
13 combined cost.

14 Q And that combined cost should be considered  
15 by the Postal Service?

16 A Postage is already a part of that. It is  
17 really up to the individual mailers to decide what is  
18 the lowest combined cost.

19 Q Your answer was that lowest combined cost is  
20 taken into consideration in rate design. I assumed  
21 you meant by the Postal Service. Did you not?

22 A Yes, I meant by the Postal Service and it's  
23 in the context of lowest combined cost was taken into  
24 consideration so that the rate structure and rate  
25 design sends price signals to the mailers.

1           Q     In determining the adequacy of a price  
2 signal doesn't the Postal Service typically consider  
3 the costs to the mailer of responding to the  
4 incentives so the Postal Service will have some idea  
5 about what size of a price signal is appropriate?

6           A     Costs vary from mailer to mailer. One  
7 lowest combined cost might not be the lowest for the  
8 other mailers, so the purpose of the rate design is to  
9 send the right price signal so that the mailers can  
10 decide for themselves what the lowest combined cost  
11 is.

12          Q     Would you expect that the publications that  
13 are now being co-palletized in response to the  
14 incentive for co-palletization in today's rates would  
15 be those publications that can most readily be co-  
16 palletized at a reasonably low cost. In other words,  
17 they're the first ones into the pool, the ones that  
18 are the most likely to enjoy the benefits of the pool.

19          A     I do not quite get your question.

20          Q     In response to, and you mentioned this  
21 before where you referred to, this is Question 16, I'm  
22 sorry. You referred earlier to some data about what  
23 percentage of the presently co-palletized pieces are  
24 drop shipped to an ADC or an SCF and I guess I'm -- Do  
25 you have any reason to believe that those pieces that

1 are presently being co-palletized are representative  
2 of the world of non-co-palletized pieces, or non-  
3 palletized pieces I should say?

4 A Representative in what way?

5 Q You seem to believe that they're  
6 representative because when we asked you what range of  
7 percentages would be reasonable in terms of in the  
8 future how many who begin to co-palletize can actually  
9 come up with ADC pallets, your response wasn't what  
10 you predict for the future but what's happened in the  
11 past. I'm trying to find out whether you think the  
12 success enjoyed by pieces that were previously co-  
13 palletized will be matched by pieces which are not  
14 presently co-palletized for whatever reason, but might  
15 be in the future.

16 A I won't say matched one percent by percent,  
17 but these publications were not co-palletized before  
18 the program, before the experiment, and now they are  
19 in the pool. So I think it's certainly an indication  
20 of how the drop ship profile is going to turn out to  
21 be.

22 Q Isn't it equally possible that the  
23 publications that first entered the co-palletization  
24 pools are the ones that could be most easily and least  
25 expensively co-palletized with the best results? That

1 the marginal candidates are not being co-palletized.  
2 Wouldn't you expect that when something is offered  
3 that the easiest pieces to accommodate with the  
4 biggest benefit would be the first ones to take  
5 advantage of it?

6 A This co-pal pool, it's built up not  
7 overnight. We are seeing new titles and new  
8 publications joining the pool so I do not quite get  
9 the question. Are you saying that the late-comers are  
10 not enjoying the same co-pal incentives  
11 as --

12 Q What I'm saying is maybe there's a reason  
13 why a still relatively small percentage of the small  
14 circulation periodicals are co-palletized. It may be  
15 the ones that were co-palletized first are the ones  
16 that are easiest, the ones that have relationships  
17 with big printers, the ones where the savings are the  
18 largest so that the printers can cover their costs.  
19 Those would be the logical first candidates for co-  
20 palletization. The last candidates for co-  
21 palletization would be the most difficult. The  
22 marginal, perhaps, the tabloids.

23 You said already there are no tabloids to  
24 your knowledge being co-palletized. It's not  
25 technologically impossible, it's just very difficult

1 to build that volume. So you don't see any in the co-  
2 pal group today because that group can't be today.

3 My suggestion is that you throughout your  
4 testimony today and in response to the interrogatories  
5 were very reluctant to say that one thing is  
6 representative of anything else. Now all of a sudden  
7 you're very willing to say that, apparently without  
8 studying the characteristics, that the small  
9 percentage of periodicals now being co-palletized  
10 produced results that will in some way be shared by  
11 the very many small circulation periodicals that are  
12 not co-palletized.

13 Let me ask you, what kinds of studies have  
14 you undertaken to determine whether in fact the small  
15 sample of the current co-palletized volume is in any  
16 way similar to the much larger group of non-co-  
17 palletized volume? Or is it just speculation on your  
18 part?

19 A I don't think I ever attempted to make any  
20 projection that the future drop ship profile for the  
21 co-palletized publications is going to 100 percent  
22 resemble the percentages right now.

23 All I said in my response to your question  
24 was according to the data available right now that  
25 were collected from the mailers and filed with the

1 Commission, up until the end of March this year 64  
2 percent would drop ship to the ADC and over 25 percent  
3 to the SCF.

4 Q I would add those together so that 89  
5 percent were either to an SCF or an ADC, or is the 25  
6 percent included somehow in the 64 percent?

7 A No, they are separate. It's 89 percent --

8 Q Went to either an ADC or an SCF.

9 Okay. I'll ask the question I think one  
10 more time. That is the historical information that  
11 you have. What reasons do you have to believe that  
12 that same level of destination entry can be reached in  
13 the future as more and more periodicals become co-  
14 palletized?

15 A One objective of the proposal is to  
16 encourage more efficient practices including co-  
17 palletization of palletized mail and drop shipping.  
18 We are increasing those drop ship discounts so that  
19 people would adopt efficient practices.

20 Based on the historical data I think it is  
21 reasonable to assume that this range of percentages  
22 would be reasonable.

23 Q But it's just an assumption on your part.  
24 It hasn't been studied?

25 A That's correct.

1 MR. STRAUS: Thank you. That's all I have.

2 CHAIRMAN OMAS: Thank you, Mr. Straus.

3 Mr. Levy, introduce yourself and your  
4 client.

5 MR. LEVY: Thank you, Chairman Omas.

6 David Levy for the Alliance of Non-Profit  
7 Mailers and Magazine Publishers of America, Inc.

8 We have no questions.

9 CHAIRMAN OMAS: Thank you, Mr. Levy.

10 Mr. Bergin?

11 MR. BERGIN: Thank you, Mr. Chairman.

12 Good afternoon, Ms. Tang.

13 WITNESS TANG: Good afternoon.

14 MR. BERGIN: My name is Tim Bergin. I  
15 represent the McGraw-Hill Companies.

16 CROSS-EXAMINATION

17 BY MR. BERGIN:

18 Q Could we start please with the response of  
19 the United States Postal Service to Presiding Officers  
20 Ruling 30, which was filed this morning?

21 A Yes.

22 Q This pertains to the application of the  
23 container charge that you have proposed as part of  
24 outside county periodicals mail rate structure, is  
25 that correct?

1           A     Yes.

2           Q     On page two there is a, actually there are  
3     four charts. I'm referring to the one at the bottom  
4     which relates to container rate application. Do you  
5     see that?

6           A     Yes.

7           Q     Item 2 notes that for sacks on pallets the  
8     container charge will be assessed per sack?

9           A     That's correct.

10          Q     Can you tell me why the decision was made to  
11     assess the container charge per sack in that instance?

12          A     Because the purpose of introducing the  
13     container rate is to encourage efficient mail  
14     preparation and I think it's common knowledge that we  
15     know it costs more to move mail from pallets than out  
16     of a sack.

17          Q     But these are sacks on pallets. That's the  
18     difference I'm inquiring about.

19          A     I think I've addressed this question in my  
20     response to --

21                     (Pause).

22          Q     If you're not certain we can move on and  
23     perhaps if you wanted to respond in writing that would  
24     be fine, too.

25                     If you look at the next item which includes

1 trays and tongues on pallets, in that instance the  
2 container charge is applied per pallet, unlike the  
3 previous example sacks on pallets where the container  
4 charge is applied per sack.

5 Can you tell me why the difference in  
6 treatment? Why in one instance the container charge  
7 is applied per sack and in the other instance it's  
8 applied per pallet?

9 (Pause).

10 A Well, to answer this question and also your  
11 previous question, as I said in my response to NNA's  
12 question number 24, this proposed container rate is an  
13 integral part of the rate structure. Its existence  
14 allows for the other rate elements to be lower.  
15 Therefore it applies to all the outsize periodicals  
16 mailings.

17 As mentioned in the response to Ruling 30,  
18 the volume that's either in a sack or on the pallet  
19 are the vast majority which represents about 99.7  
20 volumes, pieces of periodicals mail. These rare  
21 situations as you just mentioned where pallets or  
22 sacks are not used require alternative means for  
23 assessing the charge. These means will be subject of  
24 specific standards that will be published in the  
25 Federal Register for comments next month.

1           Q     I understand your position on that and we'll  
2     come to that, namely mail that's entered on something  
3     other than sacks or pallets or that is not  
4     containerized, but the two items we're talking about,  
5     about both pallets and sacks, is there anything you  
6     have to add to your answer with regard to those?

7           A     No, I don't.

8           Q     Moving on to Item 4 in the container rate  
9     application chart on page two of the response to the  
10    Postal Service to Presiding Officers Ruling 30, this  
11    item addresses a situation where there is no  
12    containers but there is destination delivery unit  
13    entry as specified by the Postal Service. The chart  
14    indicates that in that case the Postal Service is  
15    contemplating applying, if I understand it correctly,  
16    a container charge per a five digit scheme served by  
17    the DDU. Am I correct in that regard?

18          A     That's correct.

19          Q     Can you tell me the rationale for applying a  
20    container charge to uncontainerized mail based on the  
21    five digit scheme served by the DDU?

22          A     Again, this is one of those rare occasions  
23    that's not of the 99.7 volume I just mentioned. One  
24    application is to assess container rates per five  
25    digit scheme served by that specific DDU.

1           Q     How many five digit schemes do DDUs  
2 generally serve?

3           A     I am not the expert but my understanding is  
4 it's usually between one and three and if it's a large  
5 metropolitan area it can be sometimes four.

6           Q     So the application of the container charge  
7 to uncontainerized mail would depend upon the  
8 particular DDU where it was entered? In other words  
9 at one DDU it could be four times 85 cents; at another  
10 one it could be simply 85 cents?

11          A     If the mailings are going to all those four  
12 five digits. If it's only two five digits then it's  
13 two times 85 cents.

14          Q     I see. So it depends upon the destination  
15 of the mail?

16          A     Yes.

17          Q     Not the size of the mailing?

18          A     It's to be assessed by every five digit  
19 scheme which means it's the destination.

20          Q     And not the size of the mailing as far as  
21 you know?

22          A     That's my understanding.

23          Q     I'd like to come back to a statement you  
24 made a little bit earlier. You referred to an NNA  
25 interrogatory and I'm going to refer you to McGraw-

1 Hill Interrogatory to you number five in which I  
2 believe you made the same statement in connection with  
3 the application of the proposed container charge to  
4 uncontainerized mail.

5 If you look at the first two sentences of  
6 your response there you state, "The proposed container  
7 charge is an integral part of the rate structure. Its  
8 existence allows for other rate elements to be lower  
9 than they otherwise would be so it must apply to all  
10 mailings. The proposed container rate would therefore  
11 apply to mailings comprised of uncontainerized  
12 bundles."

13 CHAIRMAN OMAS: You're fading a little bit.  
14 Your mike went out.

15 MR. BERGIN: Is that better, Mr. Chairman?

16 CHAIRMAN OMAS: Yes.

17 MR. BERGIN: Sorry about that.

18 BY MR. BERGIN:

19 Q If I understand that answer you're saying  
20 basically that application of the container rate to  
21 all mail is necessary to meet the revenue requirements  
22 that have been determined to be necessary for outside  
23 county periodicals mail, is that fair?

24 A I think it's a tricky question.

25 Q Well let me withdraw it then and just ask

1 directly, you state in the second sentence of your  
2 response to McGraw-Hill number five that the container  
3 rate must apply to all mailings. Can you explain why  
4 for me? Especially with regard to uncontainerized  
5 mail.

6 A Because when we designed the rates,  
7 container rates, the revenues generated from container  
8 rates was actually added back to the revenue  
9 requirements which means the revenue requirements is  
10 actually lower, which leads to the other rates  
11 elements, other rates cells to be lower than they  
12 otherwise would be.

13 Q So if I understand, you're counting, so to  
14 speak, you're counting on the container rate revenues  
15 generated from all mailings to meet the necessary  
16 revenue requirement for outside county periodicals  
17 mail?

18 A I just want to clarify that there is no  
19 specific separate revenue requirement set up for  
20 container rates. It's only developed to send the  
21 right price signal. It could be higher than 85 cents  
22 and the reason we chose 85 cents is because it's going  
23 to send the right signal as I described in my  
24 testimony, that if you allocate the container rates to  
25 each piece doing a comparison between the average

1 pallet that contains those average pieces and the  
2 sacks they're going to be comparable than the  
3 palletized discount they're enjoying right now. Also,  
4 meanwhile, without posing any undue burden to those  
5 publications that cannot be on the pallets.

6 So just to clarify that, I didn't have any  
7 separate revenue requirements specifically to be  
8 collected from the container rate, but as a price  
9 signal the container rate revenue was added back to  
10 lower the revenue requirements from the whole class so  
11 that the other base elements would lower.

12 Q I see.

13 It's true, is it not, that to the extent the  
14 Postal Service handles fewer containers the Postal  
15 Service saves the cost of handling containers?

16 A I suppose so.

17 Q That would follow, wouldn't it?

18 A Yes. There will be savings on the container  
19 handling costs.

20 Q Because you expect that as a result of the  
21 container charge and the price signal pulled into that  
22 charge that mailers will use fewer containers in the  
23 test year of 2008 than in the 2005 base year, is that  
24 correct?

25 A That's the expectation, yes.

1           Q     I understand from your response to McGraw-  
2 Hill Interrogatory 5, I believe, actually it was a  
3 later interrogatory, that the Postal Service has not  
4 made an estimate of the extent of those savings. Is  
5 that correct? Am I summarizing your testimony  
6 correctly?

7           A     The savings from fewer containers?

8           Q     Yes.

9           A     That's correct.

10          Q     So in setting the revenue requirement for  
11 outside county periodicals mail you did not take any  
12 savings from fewer containers in the test year into  
13 account. Would that be fair?

14          A     There is no separate cost developed to  
15 account for the anticipated reduction of container  
16 counts in the test year.

17          Q     No estimated savings? Is that a correct way  
18 to understand that?

19          A     That's correct. But meanwhile it will also  
20 be offset by the reduction of container numbers so  
21 that actually the container rate revenue will be lower  
22 too.

23          Q     Is it correct that the average cost of  
24 handling a sack is about \$1.16?

25                   I think I can refer you to McGraw-Hill

1 Interrogatory 1(a) in that regard.

2 A Yes, that's the unit cost of handling one  
3 sack stated in Library Reference 85.

4 Q So that the savings to the Postal Service  
5 from handling fewer sacks will exceed the loss of  
6 container charge revenues, correct?

7 A Yes.

8 Q Is it a fair statement in your view that the  
9 savings to the Postal Service from the reduction in  
10 the number of sacks and other containers used in the  
11 test year would in all likelihood well exceed any  
12 loss in container charge revenues that are associated  
13 with not applying a container charge to  
14 uncontainerized mail?

15 Do you understand my question?

16 A Yes, and I believe I already have a written  
17 response to your question. I think it's the  
18 interrogatory, I'm trying to find the answer.

19 (Pause).

20 A I think it's in my response to your McGraw-  
21 Hill Question 2, part E.

22 Q I think the present question is a little bit  
23 different. I'm focusing on that small part of outside  
24 county periodicals mail that is not entered in a  
25 container. It's entered at the DDU by the mailer

1 unloading its own mail and placing it into containers.  
2 This is the portion of outside county periodicals mail  
3 that I believe you indicated was a very small  
4 proportion, less than one percent?

5 A Yes.

6 Q This is the portion for which the Postal  
7 Service is suggesting in its paper filed this morning,  
8 a container charge would nevertheless be assessed on  
9 uncontainerized mail based upon the five digit scheme  
10 to which the mail is destined.

11 My question is, with regard to this mail and  
12 the loss of container charged revenues if no container  
13 charge would apply to this mail, is it not the case  
14 that the net reduction in revenues would be more than  
15 offset by the savings to the Postal Service from a  
16 reduction in the number of containers used in the test  
17 year?

18 A You mentioned no container charge being  
19 assessed?

20 Q If no container charges were assessed, that  
21 that loss in revenue would be more than offset by the  
22 savings from fewer containers in the test year.

23 A First of all, as I said, the container rate  
24 is an integral part. It actually helps to bring down  
25 other rate elements including those rates at the DDU

1 level. Therefore the container rates will be assessed  
2 to the mailing you just described.

3 Q Let me move on to another subject area if I  
4 may.

5 Could you please refer to McGraw-Hill  
6 Interrogatory 11(c)?

7 In question 11(c), we asked you to please  
8 confirm that the proposed 14.3 percent increase in the  
9 unzoned editorial pound charge is the only proposed  
10 double digit increase among the pound charges brought  
11 by county periodicals mail.

12 In your response to 11(c) you stated, "Not  
13 confirmed."

14 Then you referred to double digit decreases  
15 for certain categories of mail, namely destination  
16 entry mail.

17 But the question was whether there was any  
18 other double digit increase among the pound charges  
19 apart from the proposed 14.3 percent increase for the  
20 unzoned editorial pound charge, and it's correct that  
21 that is the only double digit increase among the pound  
22 charges?

23 A Yes. I thought you meant rate change which  
24 also accrue decreases.

25 CHAIRMAN OMAS: Excuse me, Mr. Bergin.

1       Could you tell me about how much longer you might  
2       have? We may take an afternoon break here.

3               MR. BERGIN: I would estimate about ten  
4       minutes, Mr. Chairman.

5               CHAIRMAN OMAS: Why don't we take a ten  
6       minute break if that's okay with you.

7               MR. BERGIN: Certainly.

8               CHAIRMAN OMAS: And Mr. Bergin, you don't  
9       need to really have to stand real close to the mike  
10      because these are a little bit more sensitive than the  
11      old ones. Thanks.

12              MR. BERGIN: Thank you, Mr. Chairman. I'm  
13      adjusting like everyone.

14              (Whereupon, a recess was taken from 3:02 to  
15      3:15 p.m.)

16              CHAIRMAN OMAS: Mr. Bergin, you may proceed.

17              MR. BERGIN: Thank you, Mr. Chairman.

18              BY MR. BERGIN:

19              Q     I am referring you again to McGraw-Hill  
20      Interrogatory 11(c).

21              A     Which question?

22              Q     McGraw-Hill Interrogatory 11(c).

23              A     Okay.

24              Q     In addition to asking you whether the 14.3  
25      percent proposed percentage increase for the unzoned

1 editorial pound charge was the only double digit  
2 proposed pound rate, rate among the pound charges. We  
3 also asked you if the 14.3 percent increase for the  
4 unzoned editorial pound charge was higher than all but  
5 three of the proposed piece charges. That would be  
6 true, am I correct, putting aside increases in  
7 discounts?

8 A The three resales you mentioned include  
9 rather round pieces, correct?

10 Q Yes.

11 A Okay. Yes.

12 Q Thank you.

13 Am I correct that the proposed unzoned  
14 editorial pound charge that you have proposed  
15 represents 83.2 percent of the zone one and two  
16 advertising pound charge?

17 I can refer you to your answer to McGraw-  
18 Hill Interrogatory 11(b) if you need to refer.

19 A Yes, I can confirm that.

20 Q 83.2 percent of the zone one and two charge.

21 A The proposed rate for non drop ship by the  
22 total pounds is about 83.2 percent of the proposed  
23 zones one and two advertising pound rates.

24 Q Thank you.

25 The current flat editorial pound charge, if

1 I understand correctly, is about 78 percent of the  
2 zone one and two advertising pound charges, correct?

3 A Yes.

4 Q And it's also correct that traditionally the  
5 flat editorial pound charge had been set at about 75  
6 percent of the zone one and two advertising pound  
7 charge, is that correct?

8 A Yes, that's correct.

9 Q McGraw-Hill Interrogatory 11(e) was based on  
10 the assumption that in order to set the unzoned  
11 editorial pound charge at the traditional 75 percent  
12 of the zone one and two advertising pound charge in  
13 this case it would have to be reduced by 2.3 cents  
14 from the rate that you proposed for the unzoned  
15 editorial pound charge. Do you understand the  
16 assumption in that regard?

17 (Pause).

18 Q I don't mean to impose upon you the burden  
19 of doing any detailed mathematical computations. We  
20 accept, subject to check, for purposes of the  
21 following questions that a 2.3 cent reduction in your  
22 proposed unzoned editorial pound charge would be  
23 necessary in order to set it at the traditional level  
24 of 75 percent of the zone one and two charge.

25 Will you accept that you would need to go

1 down 2.3 percents in order to hit the 75 percent level  
2 for purposes of the questioning subject to check?

3 A Yes, I can confirm that the rate structure  
4 is actually different if you're talking about the  
5 points of reference. It used to be a flat editorial  
6 rate and now we are introducing the drop ship  
7 editorial pound rate. So we are talking about the  
8 non-drop-shipped editorial pound rate as opposed to  
9 previously the average flat editorial pound rate.  
10 Correct?

11 Q Yes. I understand that in this case the  
12 editorial pound charges are four instead of one. It's  
13 the unzoned editorial pound charge plus three drop  
14 ship rates, destination entry rates.

15 A Right.

16 Q I'm referring to the unzoned editorial pound  
17 charge which would be the higher of those four rates.  
18 It would be the non-drop ship rate.

19 A Yes. That's the 23.2 cents that you're  
20 referring to.

21 Q Yes, I believe so. And that's the charge  
22 that is now, I think 83.2 percent of the zone one and  
23 two advertising pound charge.

24 A Yes, it is.

25 Q To bring that back to the 75 percent of the

1 zone one and two advertising pound charge it would  
2 need to be reduced by 2.3 cents. I think we've been  
3 through that.

4 A Yes.

5 Q McGraw-Hill Interrogatory 11(e) asked you to  
6 please confirm that if as a policy matter the Postal  
7 Service wished to do so it would be feasible for the  
8 Postal Service to make a further reduction of up to  
9 2.3 cents in the unzoned editorial pound charge  
10 without necessarily reducing the proposed editorial  
11 pound drop ship discounts because both the revenue  
12 split between advertising and editorial pounds as well  
13 as the revenue split between piece and pound charges  
14 are subject to discretionary rate design objectives.

15 You responded to McGraw-Hill Interrogatory  
16 11(e) essentially by saying that the Postal Service  
17 believes that the ECSI value, that is the educational,  
18 cultural, scientific and informational value, that the  
19 mail has been significantly recognized by the proposal  
20 and does not plan on making further reduction in the  
21 editorial pound rate.

22 With all respect, I don't think that  
23 directly answered the question which wasn't whether  
24 the Postal Service intended to make a further  
25 reduction in the unzoned editorial pound charge. I

1 think the question was simply whether if as a policy  
2 matter the Postal Service wished to do so, it would be  
3 feasible to do so without affecting the proposed  
4 editorial pound drop shifts. Can you confirm that it  
5 would be?

6 A First of all, the response you just read was  
7 actually intended to respond to your question (f)  
8 where you raised the question whether the Postal  
9 Service considered making any further reduction in the  
10 proposed unzoned editorial pound change.

11 By focusing on one or two specific rate  
12 cells I think we are missing the whole picture because  
13 periodicals already have a very low cost coverage and  
14 any adjustment made to the proposed rates to achieve  
15 and maintain the same low cost coverage at least to  
16 cover the cost of the class itself, the remedy has to  
17 come from somewhere.

18 Like you said, if it's feasible not to  
19 affect the editorial drop ship pound rate then some  
20 other rate would have been affected.

21 The whole exercise of rate design is really  
22 not that simple and easy. It's really a balancing  
23 act. I have to make sure the cost is covered and that  
24 reasonable cost coverage has been achieved. I have to  
25 send the right price signal to all the mailers. By

1 doing so I have to provide new incentives to encourage  
2 mailers to adopt more efficient practices while still  
3 provide adequate incentives for those who are already  
4 doing the right thing.

5           Meanwhile I also had to make sure that those  
6 who cannot do so will not be harmed. I have to look  
7 at the overall rate increase versus the increase to  
8 specific rate cells like you just mentioned. And  
9 sometimes, many times you have to keep in mind that  
10 you're not designing rates only for the current case,  
11 you have to keep in mind and anticipate the operating  
12 environment is evolving too.

13           So like I just mentioned there are so many  
14 constraints and objectives I have to keep in mind, so  
15 if you ask me if it's feasible to just change one rate  
16 cell yeah, it's possible, but it's not possible to do  
17 so without affecting the others.

18           Q     Fair enough.

19           I think you did acknowledge in response to  
20 McGraw-Hill Interrogatory 11(d) that the weighted  
21 average percentage increase for the advertising pound  
22 rates was I believe 7.6 percent.

23           A     Yes.

24           Q     Can you explain to me how a 14.3 percent  
25 increase in the unzoned, a proposed 14.3 percent

1 increase in the proposed unzoned editorial pound  
2 charge promotes the ECSI value of undrop shipped  
3 editorial mail which I believe is at least 33 percent  
4 of editorial pounds on drop ship, and tends to be  
5 smaller publications, higher editorial, nationally  
6 distributed.

7 Can you tell me how a 14.3 percent increase  
8 promotes the ECSI value of that mail when advertising  
9 pound charges have an increase only half that at 7.6  
10 percent, roughly half that?

11 A When you mentioned the 7.6 percent increase  
12 it's the weighted average percent that's increased for  
13 advertising pounds, right?

14 Q Yes.

15 A I did provide a calculation of the weighted  
16 average percentage increase for editorial pounds which  
17 happens to be 2.2 percent.

18 Q Yes, you did. but that 2.2 percent, that  
19 reflects the new editorial pound drop ship rate  
20 categories, is that correct?

21 A That's correct.

22 Q And we're talking about mail that will pay a  
23 14.3 percent increase in the unzoned editorial pound  
24 charge to the extent it is not drop shipped. Correct?

25 A That unzoned editorial pound rate, yes, the

1 increase is 14.3 percent.

2 Q And this affects a substantial number of  
3 mailers for smaller, high editorial, nationally  
4 distributed, is that correct?

5 A If I single out that specific rate cell I  
6 cannot argue with you, but I think the proper way is  
7 to look at the weighted average increase like what you  
8 cited for advertising pounds.

9 Q I believe you testified in response to  
10 McGraw-Hill Interrogatory 11(a) that in proposing an  
11 above average 14.3 percent increase in the unzoned  
12 editorial pound rate in conjunction with creating  
13 editorial pound drop ship discounts, the Postal  
14 Service did not intend to penalize relatively small  
15 high editorial publications that are distributed  
16 nationally. Is that correct? Did you confirm that?

17 A That's correct.

18 Q Do you consider it in effect to penalize  
19 that mail by penalizing a 14.3 percent increase on  
20 that mail as compared with a 7.6 percent increase for  
21 advertising, in the pound charge for advertising mail?  
22 In the advertising charges, I should say.

23 A The unzoned editorial pound rate is proposed  
24 together with the drop ship editorial pound rate and  
25 the price signal the Postal Service is trying to send

1 is to include that group of mail to share in the  
2 efficiency of periodicals.

3 Before the 1.3 cent adjustment was made to  
4 the unzoned editorial pound rate we, the Postal  
5 Service is mindful of the impact to small publications  
6 nationwide like you just said. That's why we made the  
7 adjustment to ease the impact on those publications.  
8 I believe together with the drop ship rates the price  
9 signal is to encourage drop shipment and more  
10 efficient mail preparation.

11 Q If I understand you correctly for those  
12 periodicals mailers who are unable to drop ship it  
13 would be feasible if the p decided it would be  
14 appropriate to make a further reduction in the unzoned  
15 editorial pound charge? I believe that was your  
16 testimony.

17 A Yes, that's why the 1.3 adjustment was made.

18 Q I was referring to a further adjustment.  
19 I'm not asking --

20 A -- by looking at the 2.2 percent weighted  
21 average increase to all the editorial pounds we think,  
22 I believe the ECSI value has been recognized.

23 Q Even for periodicals mailed, the portion of  
24 periodicals mailed, high editorial publications that  
25 cannot be drop shipped because of the size of the

1 circulation for other reasons?

2 A With all the constraints I just mentioned, I  
3 think it's a reasonable and balanced proposal, yes.

4 MR. BERGIN: Thank you, Ms. Tang. I have  
5 nothing further.

6 CHAIRMAN OMAS: Thank you, Mr. Bergin.

7 Ms. Rush? Please introduce yourself and who  
8 you represent, please.

9 MS. RUSH: We're all getting used to this  
10 new microphone here.

11 Ms. Tang, I'm Tonda Rush with National  
12 Newspaper Association.

13 The nice thing about being last is these  
14 guys have already asked all the hard questions, I  
15 think, so I think we won't take more than about 20  
16 minutes here.

17 CROSS EXAMINATION

18 BY MS. RUSH:

19 Q I'd like to take you back just for a minute  
20 into this nether-world of the .3 percent  
21 uncontainerized volumes that Mr. Bergin was asking you  
22 about, particularly in response to McGraw-Hill's  
23 question number five. You looked at it just a moment  
24 ago. Do you want to take another look at it, or is it  
25 still fresh in your mind?

1           A     That's the DDU entered bundles?

2           Q     That's right.

3           A     Okay.

4           Q     You mentioned I think when Mr. Straus was  
5 talking to you about having toured some mailers'  
6 plants, were any of those newspaper plants?

7           A     It's not newspaper plants, it's periodicals,  
8 publications in general

9           Q     Do you consider newspapers periodicals?

10          A     Yes.

11          Q     Have you visited a newspaper plant?

12          A     Not specifically, no.

13          Q     I'm asking because I want to suggest a  
14 couple of hypotheticals.

15                 In light of the Postal Service's filing this  
16 morning, the inquiry number 30 response, and see if  
17 you can explain to me how you think the  
18 uncontainerized container charge would apply to some  
19 of these types of mail, if you don't mind.

20                 I'd like you to imagine a newspaper that  
21 possibly is located on a county line where it's  
22 readership market would include deliveries that are  
23 outside its county but still within its own  
24 distribution territory. And consider for me the  
25 scenario where the publishers takes bundles, let's say

1 they're carrier-route bundles, let's pick six, and  
2 drops them late at night or early in the morning on a  
3 protected dock at a small post office for delivery  
4 that day.

5 How would the container charge apply to  
6 those bundles?

7 A Are they going to one five digit?

8 Q Excuse me?

9 Let's say we have six carrier route bundles  
10 for that one five digit zip code. A small post  
11 office.

12 A Then I assume they would just follow the  
13 scenario number four that's listed in the list.

14 Q So the charge would be what for them? What  
15 would their container charge be?

16 A You said it's going to the same five digit?

17 Q That's right. Carrier route bundles.

18 A Then it would be just 85 cents.

19 Q All right.

20 What would happen if the mailing consists of  
21 loose copies in a tray destined for a carrier route,  
22 still to that same zip code?

23 A Then it would follow scenario five in the  
24 table presented earlier today.

25 Q And the charge would be what?

1           A     Per unit.

2           Q     What is the unit in that case?

3           A     You mentioned tray, right?

4           Q     A tub actually is probably the better  
5 description.

6           A     Probably per tub?

7           Q     Per tub. So it would be 85 cents per tub?

8           A     Yes, that's the container rate.

9           Q     What if the mailing costs of many tubs,  
10 let's say six tubs, and the postmaster has asked the  
11 newspaper to please deliver these tubs onto an all-  
12 purpose container, a piece of rolling stock at the  
13 post office, which will actually be taken into that  
14 post office for the processing and distribution. What  
15 would the charge be in that case?

16                     I have six tubs and I have one APC.

17           A     Well, again I think that response we gave  
18 today to Ruling Number 30 listed in general how that  
19 container rate is going to be assessed and what the  
20 application is going to be. That scenario you just  
21 described happened to be those that's very rare and  
22 it's going to the specific regulations will be  
23 published in the Federal Register next month.

24           Q     So is your answer you don't know yet how the  
25 rate would apply in that case?

1           A     I do not want to be the implementational  
2 mail acceptance spokesperson here.

3           Q     So you don't know yet. Is that what your  
4 answer is?

5           A     I know as a general rule it's all listed  
6 here and I really can't provide any information to  
7 tell it regarding to the specific scenario you just  
8 laid out.

9           Q     Does the Postal Service intend to come back  
10 to the Commission with any costing data before it  
11 applies rates to this kind of mail?

12          A     Relating to what?

13          Q     To the hypothetical I just asked.

14          A     Well, 85 cents container rate, as I said, is  
15 more a price signal than something trying to reflect  
16 the actual container handling cost that's cited  
17 earlier in Library Reference 85. And as you can see,  
18 it actually costs more than \$19 to handle a pallet,  
19 and our container rate is only 85 cents.

20          Q     I'm not discussing pallets, I'm talking  
21 about in this case tubs on an APC. My question is  
22 since you couldn't tell me what rate would apply to  
23 it, does the Postal Service intend to come back to the  
24 Commission before it actually applies that rate to  
25 that type of mail?

1           A     The point I was trying to make is 85 cents  
2     is more of a price signal to encourage efficient use  
3     of containers and efficient practices.

4           Q     I understand the characterization of the  
5     charge. My question is the process the Postal Service  
6     intends to follow. Does the Postal Service intend to  
7     come back to the Commission before actually applying  
8     the rate to that type of mail? In any proceeding  
9     other than this rate case, or in this rate case, for  
10    that matter.

11          A     Not to my knowledge.

12          Q     Thank you.

13                Let me go back to my examples again. I may  
14    be dwelling in an area that is rare in the scope of  
15    the periodicals you've looked at but not within the  
16    scope of newspaper mailings. I'm trying to give you  
17    some examples that newspapers would be presenting.

18                Let's imagine that the bundles are brought  
19    in again to a delivery unit, again carrier route  
20    bundles and the postmaster has directed the mailer to  
21    deposit them in a gurney. Do you know what I mean, a  
22    bit canvas tub on wheels?

23          A     Uh huh.

24          Q     The container would then be what, the  
25    gurney?

1           A     I think it again falls into that other  
2     category and the details will be published and I will  
3     make sure the specific scenario will be addressed.

4           Q     So we don't know yet then. Right now you  
5     don't know yet is the answer.

6           A     That's correct.

7           Q     Those bundles presented in a sack then would  
8     be the 85 cent rate?

9           A     The bundles presented?

10          Q     The bundles are presented at the delivery  
11     unit in a sack, and the container rate in that case  
12     would be the 85 cents, is that correct?

13          A     That would be per sack, yes.

14          Q     In a couple of cases we're not sure yet  
15     which the container is if there is in fact a  
16     container, but at least in the situation where I have  
17     no container then we know the charge would be 85 cents  
18     is what I'm understanding what you've just said to me.  
19     Assuming it's a five digit scheme.

20          A     Yes, I think it would be a reasonable  
21     interpretation of that application listed here.

22          Q     Thank you.

23                     You've said several times that you believe  
24     this type of mail that I'm describing is a very small  
25     component of periodicals mail. Your math is no doubt

1 much better than mine, but by my calculations .3  
2 percent is somewhere under 200,000 pieces of a 6.5  
3 billion mail stream. Does that sound about right to  
4 you?

5 A That sounds about right.

6 Q Did you consider when you were designing the  
7 charges and you wound up with this .3 percent left  
8 over that appeared to belong nowhere, it was not in a  
9 sack and it was not in a pallet, instead of imposing  
10 the charge to spread the cost among the remaining  
11 pieces and recover the cost of the containerization  
12 that way?

13 You're looking at a fairly small amount of -  
14 -

15 A I don't think I understand your question.  
16 Can you rephrase it?

17 Q Didn't you just say a few minutes ago that  
18 your design here was intended to do two things. Send  
19 a price signal and also recover a container cost for  
20 the Postal Service to some degree.

21 A If any.

22 Q Well, 85 cents is some revenue, is it not?

23 A Yes.

24 Q So you're recovering some costs there.  
25 And if your design is intended to try to

1 produce revenue to cover a cost that the Postal  
2 Service believes it has recognized associated with the  
3 use of containers, I'm asking whether for this tail of  
4 200,000 pieces if you considered the possibility,  
5 since this is uncontainerized mail, of not actually  
6 applying the charge for that mail at all, but simply  
7 for this very small fraction of mail spread that cost  
8 over the remaining units that you found in outside  
9 county and recovering the cost there?

10 A Well, like I said before, the container  
11 revenue actually brings down the total revenue  
12 requirement from the entire periodicals outside county  
13 sub-class, so it actually already lowered the rate  
14 elements including the one you just discussed. And I  
15 would also note that the container rate is not even  
16 assessed for incoming mail.

17 Q I'm not talking about incoming mail. I  
18 haven't raised incoming mail at all. I'm discussing  
19 purely outside county at this point.

20 How much did the charge apply to this  
21 uncontainerized mail bring down the other rates?

22 A I haven't done such calculation.

23 Q I believe you said at one point in your  
24 testimony that you're assuming that with the Postal  
25 Service's new rules requiring 24 pieces of mail in a

1 sack, that 65 percent of the "skin sacks" will have  
2 disappeared by the test year, is that correct?

3 A That's the assumption I made.

4 Q Why did you pick 65?

5 A It's a reasonable estimation given the fact  
6 that some sacks, many sacks, that contain less than 24  
7 pieces will still be in the mail stream.

8 Q Can you characterize the sacks? What  
9 creates the sacks that might have contained fewer than  
10 24 pieces? Given the fact that the Postal Service for  
11 most purposes forbids those.

12 Are you familiar with the term "tail of the  
13 mail"? Do you know what that means?

14 A I've heard that.

15 Q Do you understand that to be the mail that's  
16 left over after you have prepared all of your mail to  
17 the most optimal levels?

18 All right. Is the 35 percent that you  
19 believe will still be in the mail stream of skin sacks  
20 all "tail of the mail"?

21 A No, there would be some overflow sacks, some  
22 exceptions that are made to allow certain carrier  
23 routes three digit sacks and understand there are  
24 exceptions to the 24 piece rule. I'm not the expert,  
25 but I understand that. There will be some mixed ADC

1 sacks too.

2 Q Has one of the other witnesses measured the  
3 amount of mail expected to be remaining in the mail  
4 stream and provided that to you to support your 65  
5 percent?

6 A Not officially.

7 Q Unofficially?

8 A Yes.

9 Q Can you identify that witness?

10 A There has been discussion using some models  
11 that we used to study the characteristics of  
12 periodicals mail and according to the simulation we  
13 believe the 65 percent is a reasonable estimate.

14 Q So I should look to the witness who  
15 sponsored the periodical mail characteristic study who  
16 appeared just prior to you today? Is that what you're  
17 telling me?

18 A Yes.

19 Q Ms. Tang, would you turn quickly to NNA's  
20 question number ten for you?

21 Now I am turning to within county mail. We  
22 can get out of the nether world of uncontainerized  
23 mail for a few moments and get into a different area  
24 briefly.

25 Is it true that in this case you have

1 proposed the pass-throughs for carrier routes, rate  
2 mail and in-country at 58 percent pass-through. Can  
3 you recall that from your testimony?

4 A Yes, it's 58 percent.

5 Q And do you recall what it is for outside  
6 county?

7 A Carrier route basic?

8 Q Yes.

9 A I believe it's 148.

10 Q Thank you.

11 What were your objectives in choosing the  
12 relative pass-throughs for those two sub-classes and  
13 those two rate areas?

14 A I believe I already responded in writing to  
15 why the rationale behind the different pass-throughs  
16 chosen for in-county.

17 Q You responded in our question 11, I believe,  
18 --

19 A Yes.

20 Q -- that the pass-throughs were chosen in  
21 part to mitigate the impact of the rate increase on  
22 customers.

23 Were you meaning to say that the pass-  
24 through chosen for within county that is significantly  
25 below 100 percent was chosen to mitigate the impact on

1 outside county? Is that what you meant by that?

2 A No, I think we're talking about two  
3 different cost coverages and two different cost  
4 numbers here. As I've said in my response, the cost  
5 avoidance pass-throughs proposed for outside county  
6 periodicals differ from the cost avoidance pass-  
7 throughs that were proposed for within county. The  
8 rate design objective sometimes dictates that the rate  
9 designer use the flexibility that comes with having  
10 two separate sub-classes and choose different  
11 passwords for different sub-classes.

12 Q I'm asking you here which objectives  
13 dictated that choice.

14 A The one I can think of right here it would  
15 be the very low cost coverage for within county and  
16 the already low revenue per piece for within county  
17 mail.

18 Q The cost coverage requirement dictated to  
19 you the low pass-through that you chose? Is that what  
20 you're testifying?

21 A No, more would be I don't have much room to  
22 give out high pass-throughs because the revenue per  
23 piece for within county periodicals is already so low.

24 Q I'm not sure I'm following you.

25 You're saying that because the rate, the

1 absolute rate is low that you have to choose, the  
2 Postal Service has to keep 40 percent of the savings  
3 that you've measured for carrier route mail and not  
4 pass it through to the customer to try to mitigate the  
5 expenses that they incur to create that carrier route  
6 mail? Is that what you're testifying?

7 A No, let me rephrase that.

8 The within county rates already low compared  
9 with outside county periodicals mail. And as I  
10 mentioned before, I do not have much real room to play  
11 with for that specific rate cell as with the other  
12 cells for within county sub-tasks. If the pass-  
13 through is raised I have to collect the revenue to  
14 come up with the required cost coverage somewhere  
15 else.

16 Q Where else might it come from? What other  
17 choices would you have?

18 A The other rates.

19 Q What other rates? You mean other within  
20 county rates?

21 A Yes.

22 Q So what would happen is if mailers actually  
23 were compensated up to 80 percent, let's say, of the  
24 cost savings the Postal Service enjoys from the work  
25 sharing --

1           A     I would have to plug in a number and see the  
2     ripple effect.

3           Q     Where might it go?  It's going to fall  
4     somewhere, so what are the choices of where it might  
5     fall?  It would fall to the basic rate?  Is that what  
6     you're saying?

7           A     It's possible.

8           Q     All right.  And if that were the case would  
9     the Postal Service consider, what would be the  
10    objective that you would have in mind for protecting  
11    the basic rate?  Would it be a price signal objective?  
12    Would it be a fairness objective?  What would you have  
13    in mind by trying to avoid that mitigation?

14          A     For example, if I lower that rate and the  
15    other rate cells go way beyond the average rate  
16    increase, that would be the impact I would try to  
17    mitigate.

18          Q     Let me move to one other subject.  Actually,  
19    two other quick ones.

20                 We've asked you a couple of different ways  
21    about the cost coverage that you have arrived at here  
22    and I think you filed a correction at some point.  I  
23    just want to make sure we're all clear on what you're  
24    proposing.

25                 You're proposing for within county mail a

1 cost coverage of 103.6 percent, is that correct?

2 A 103.6.

3 Q That's your final answer?

4 A Yes.

5 Q You're not calling your life line? You're  
6 not polling the audience? You haven't done that yet.  
7 You have all those left.

8 Thank you.

9 You've made some reference here today to  
10 your appearance in the complaint case of 2004-1, the  
11 case that dealt with the surcharge on sacks and so  
12 forth and you appeared there as the witness expressing  
13 concern about the impact of, the charges on containers  
14 for the smaller mailers.

15 Here you are appearing to request a rate for  
16 the within county mail that is about three times the  
17 system average increase for other mail, I believe,  
18 that's coming in at over 20 percent, nearly 24  
19 percent. If our calculations are correct compared to  
20 a system average for that 8.5 percent, does that sound  
21 about right to you?

22 A System average being?

23 Q The average increase in this case. Overall,  
24 all mail. It's about 8.5 percent, isn't it? Do you  
25 know?

1           A     I'm not sure about that number, but I can  
2 confirm that it's about 24 percent increase for within  
3 county.

4           Q     How did we lose your sympathy?

5                     I'll withdraw that question.

6                     I am curious, to understand a comment that  
7 you made in response to NAA's Question 7, when we were  
8 asking you about the magnitude of the increase the  
9 Postal Service proposes here, and you said it's  
10 important to consider the increase in the context of  
11 previous price changes.

12                    Do you know about what the magnitude of the  
13 decrease was that you were referring to here from  
14 Docket 2005-1 for within county mail?

15           A     As I can recall it's about 3.2 rate  
16 reduction.

17           Q     When you're considering, you've explained  
18 here several times the difficulties of calculating all  
19 the things that you have to do to design rates. You  
20 have to cover the costs, you have to worry about rate  
21 impacts, you have to make sure it all comes out right  
22 in the end, send the right price signals, but you also  
23 have to comply with the criteria of Section 3622 and  
24 Title 39, I assume. You keep those in the back of your  
25 mind, do you not?

1           A     Yes.

2           Q     Do any of these criteria that you have in  
3 your mind, either the ones from the statute or the  
4 various ones that you've named here today constitute  
5 objectives that would require you to consider the  
6 impact of a previous rate case?

7           A     It provides a reference point I suppose and  
8 gives an increase in the context of previous price  
9 changes.

10          Q     You haven't mentioned context before. Is  
11 this a price signal objective?

12          A     That's relevant when you are trying to  
13 compare the rate increase.

14          Q     Compared to what?

15          A     Compared to the previous rate reduction.

16          Q     I think we're in a circle here.

17                 I'm asking you why you're comparing to the  
18 previous. What rate design objectives compel you to  
19 compare a previous rate increase or decrease in this  
20 case? Is it one of the sections under Section 3622  
21 that compels you to do that?

22          A     In some ways it's, I think it's useful to  
23 look at the context so that we know that when you say  
24 that rate increase is set for another sub-class, that  
25 sub-class actually has a rate increase and we want to

1 know that we are talking about the same foundation for  
2 a comparison here.

3 I think it's the fact that the rates  
4 resulting from Docket 2005-1 actually represented a  
5 rate increase for within county, rates go out, or the  
6 sub-class increases. I think it's really worth noting  
7 because the effective overall increasing docket number  
8 2001-1 is not as great as the comparison of the  
9 current proposed rates in this filing would indicate.

10 Q You said in your response to my question  
11 here that it was worth noting. What I'm trying to  
12 understand is why it's worth noting. Which of the  
13 price design, the rate design objectives, make you say  
14 that it's worth noting. Is it something from the  
15 Section 3622? Is it something that is inherent in  
16 the way you get to balance the different rate cells?  
17 Which of these siren calls are you answering when  
18 you're saying that it's worth noting?

19 A When you asked me why I think the rate  
20 reduction in Docket 2005-1 is relevant.

21 Q I'm asking that same question now. Why do  
22 you think it's relevant?

23 A Because it provides the context and the  
24 reference point for comparison.

25 Q So we should understand that in addition to

1 the other objectives you've named here context is an  
2 objective, a new one that we don't know about before?

3 A I think context is very important in rate  
4 design. Like I said, people can be unhappy about  
5 certain rate cells but there are so many objectives  
6 and constraints we have to achieve and I think overall  
7 the Postal Service presents a reasonably balanced  
8 proposal.

9 Q I like the objective of happiness better  
10 than any you've named so far.

11 So should I conclude from this that in the  
12 future as the Postal Service moves into future rate  
13 designs that the context of the quite large proposed  
14 increase will become relevant in future cases, to  
15 mitigate possible increases that might occur in the  
16 future?

17 A It certainly will be taken into  
18 consideration.

19 MS. RUSH: Thank you.

20 No further questions, Mr. Chairman.

21 CHAIRMAN OMAS: Thank you, Ms. Rush.

22 Is there any follow-up cross-examination?

23 Are there any questions from the bench?

24 Commissioner Hammond?

25 COMMISSIONER HAMMOND: I have a few

1 questions if I could.

2 Good afternoon, Ms. Tang.

3 I have read your testimony and I'll be at  
4 one part getting to a question about another part, so  
5 I may be going back and forth. You'll have to forgive  
6 me for that.

7 But one question I had was somewhat along  
8 the lines Ms. Rush brought up about delivering  
9 periodicals to the post offices directly. You  
10 discussed quite a bit in your testimony the great  
11 benefits of small periodicals by the Postal Service  
12 encouraging more depositing of mail closer to the  
13 point of delivery, but if you take for example a small  
14 weekly periodical that the owner, publisher, editor,  
15 who is probably the very same person, is already  
16 delivering the newspaper to the actual post office  
17 where the subscriber lives, how can that newspaper get  
18 it any closer to the point of delivery than dropping  
19 it at the post office closest to the customer's home?

20 What else can they do?

21 WITNESS TANG: I think that's probably the  
22 closest they can get.

23 COMMISSIONER HAMMOND: Okay.

24 WITNESS TANG: What are you suggesting they  
25 do

1 to --

2 COMMISSIONER HAMMOND: I was just wondering,  
3 in your testimony you talk about how great it would be  
4 for them to help drive out costs by getting it to a  
5 closer point of delivery, but I know of periodicals  
6 where they already deliver it to the local post office  
7 and hand it to the postmaster. So I just didn't know  
8 what else might be suggested to them to get it closer  
9 to the point of delivery than what they're already  
10 doing.

11 WITNESS TANG: In that case they are  
12 probably paying the lower postage too.

13 COMMISSIONER HAMMOND: I assume that's the  
14 reason they do it, yeah.

15 So that part might already be about to the  
16 efficiency that they could get to.

17 WITNESS TANG: In terms of drop shipping, I  
18 would think so.

19 COMMISSIONER HAMMOND: On drop shipping.  
20 Okay.

21 You proposed a new container rate that would  
22 apply to any sack or pallet that contains periodical  
23 mail, and that would replace the co-pallet  
24 experimental discounts and along with the pallet  
25 discounts on the piece side, and the container rate as

1 I understand it would replace these discounts.

2 What I'm wondering is when the average  
3 person reads that, you're doing away with two  
4 discounts, you're replacing it with a new charge, and  
5 you've said in your testimony that even some of the  
6 smaller customers would fare better than larger  
7 customers on it. How would doing away with two  
8 discounts and replacing it with a new charge be  
9 beneficial to them?

10 WITNESS TANG: Well, the way to really  
11 assess the impact is probably by looking at the  
12 postage they would pay under the proposed rate. For  
13 instance, when I assess the impact on the currently  
14 co-palletized mail, the way to look at the absolute  
15 incentives, relative incentives, is actually to look  
16 at what if they don't co-pal under the proposed rate,  
17 take the differential from the one if they co-pal  
18 using the same set of rates which was under the  
19 proposed rates and compare the incentives they are  
20 getting under the proposed rates with the incentive  
21 they are getting now and you can clearly see that the  
22 incentives are at least comparable.

23 Like I said, the container rate has been set  
24 back to the revenue requirements and helped to bring  
25 down the other rates elements. So it's not isolating,

1 just you're getting rid of a few discounts and  
2 introducing a new container rate. It's in the big  
3 picture of how the container rate is going to bring  
4 down the other rate elements and step into the void of  
5 the discount.

6 COMMISSIONER HAMMOND: I see. And I know  
7 that a container rate, the regulations are going to be  
8 coming, even though it's in the middle of a rate case,  
9 that the Postal Service is going to get that to us.

10 But can you envision where, take with  
11 outside county periodicals, where there might be a  
12 situation where there might be only one piece in a  
13 container and therefore that one piece being at the 85  
14 cent cost?

15 WITNESS TANG: I do not think you often see  
16 one piece of mail in a container in outside county  
17 mail. Of course I cannot absolutely rule that out,  
18 but --

19 COMMISSIONER HAMMOND: Take a concrete  
20 example of, let's assume there are a lot of people who  
21 subscribe to a weekly county newspaper, small townish.  
22 They have to go to Florida for the winter because of  
23 their rheumatism or whatever. Anyway, they're down in  
24 Florida, they're what most people call "snowbirds".  
25 So they may very well be the only person who's gone

1 over to that local newspaper and filed a temporarily  
2 change of address for that six months that they're  
3 down there.

4 Will that periodicals person have to put  
5 that one newspaper in a container and pay the 85 cents  
6 to get it mailed to that person in Florida? Or more  
7 specifically since I'm an average postal customer and  
8 only care about the mail that comes to my front door  
9 and I get a local paper from back home in Missouri,  
10 and I am mostly likely the only person in my zip code  
11 who gets that newspaper, is the owner of the newspaper  
12 going to have to put it in a container and pay that 85  
13 cents and then add that 85 cents on to my  
14 subscription?

15 WITNESS TANG: I certainly hope their  
16 mailing is not just one piece of mail

17 COMMISSIONER HAMMOND: But that could  
18 happen, especially in the snowbird situation where a  
19 lot of people get periodicals, or people like me who  
20 have moved a thousand miles away from home but still  
21 like to get the county newspaper since the family's  
22 gotten it since 1885? We don't know why, but we do,  
23 because that's what we do. I do have some in the  
24 family archives, yes. I do from I think it's 1885  
25 when we started getting the paper. But I'm actually

1 not so much concerned about me than I am real life  
2 people getting real life small periodicals in distant  
3 places. I can understand you want them to get more --  
4 Well, in a situation where I would think there are a  
5 lot of small periodicals where there may only be one,  
6 two, or three that go in a container for a specific  
7 zip code. I believe there are situations like that.

8 I'm just wondering, wouldn't that, in that  
9 situation, that greatly increase their costs? If  
10 there were only two periodicals going into that  
11 container?

12 WITNESS TANG: In terms of the container  
13 rate, it's, the scenario as you just described, yes, I  
14 would suppose so. But as I mentioned, it's part of  
15 the rate design and it's part of the rate structure.

16 So keep in mind the other rate elements like  
17 the prime rate or piece rate they're paying is  
18 actually lowered by the revenue contribution from the  
19 container rate.

20 COMMISSIONER HAMMOND: So the container rate  
21 would still meet the fairness and equity criteria in  
22 your opinion.

23 WITNESS TANG: -- rate is added back to the  
24 total revenue requirement from the whole class, so  
25 yes, it trickles down to all the rate cells.

1 COMMISSIONER HAMMOND: All right.

2 Thank you very much for the information.

3 That's the last of my questions.

4 CHAIRMAN OMAS: Thank you, Commissioner  
5 Hammond.

6 Commissioner Tisdale?

7 COMMISSIONER TISDALE: Yes.

8 On page two of your response to Presiding  
9 Officer's Ruling 30.

10 WITNESS TANG: Yes.

11 COMMISSIONER TISDALE: In the table at the  
12 bottom of the page, under number five it states, "Per  
13 unit as indicated under standardized documentation."

14 I realize you talk about what the units  
15 might be and it's my understanding from what I heard  
16 that it could either be a hamper or it could be a tray  
17 but you would define that at some point later, is that  
18 correct?

19 WITNESS TANG: Yes.

20 COMMISSIONER TISDALE: What does the  
21 standardized documentation mean?

22 WITNESS TANG: I'm not an implementation  
23 expert but my understanding is there is certain  
24 software that's used at the acceptance point. So even  
25 if it falls into that other category that doesn't

1 belong, is not included in the 99.7 percent majority  
2 of the periodicals volume, that software would tell  
3 you the lowest price that could be obtained if this  
4 type of other mailing was containerized. That's my  
5 understanding.

6 COMMISSIONER TISDALE: So the standardized  
7 documentation is computer software?

8 WITNESS TANG: Is generated by the computer  
9 software.

10 For example, my understanding is, again I'm  
11 not an expert, if it's uncontainerized pieces entered  
12 at the acceptance point the software would tell you  
13 what if, for example, how many sacks it would have  
14 used if it's containerized.

15 COMMISSIONER TISDALE: I'm just trying to  
16 imagine what it is you're saying.

17 In the scenario that Commissioner Hammond  
18 was talking about if the newspaper is in a small town  
19 and they bring it over to the delivery unit in that  
20 town, then you're saying the standardized  
21 documentation would be whatever the office there has  
22 when they accept the paper as being mailed?

23 WITNESS TANG: In the scenario my  
24 understanding is it's one piece in a container?

25 COMMISSIONER TISDALE: Whatever is in the

1 container?

2 WITNESS TANG: No, it's described as one  
3 piece. One piece of newspaper in a container?

4 COMMISSIONER TISDALE: Let's say it's 100  
5 pieces in the container.

6 WITNESS TANG: It just takes up one  
7 container, it's one container.

8 COMMISSIONER TISDALE: Maybe we should wait  
9 for the publication of this.

10 WITNESS TANG: I think that would be wise.

11 COMMISSIONER TISDALE: Thank you.

12 CHAIRMAN OMAS: Is there any additional  
13 cross-examination?

14 If not, Ms. Tang, I do have a question for  
15 you.

16 In Docket C2004-1 you told us that there are  
17 about 25,000 publications with per issue circulations  
18 of 15,000 or less. You thought very small  
19 publications were not represented in that case.

20 Given that testimony, have you studied the  
21 mailing practice and problems of periodicals with very  
22 small circulations?

23 WITNESS TANG: Doing the same sampling or --

24 CHAIRMAN OMAS: No. You said they had not  
25 been studied and you thought they should be studied.

1 That was several years ago. Has that study happened?  
2 Have you given it any consideration in this case?

3 WITNESS TANG: Not to that specific group  
4 you mentioned.

5 CHAIRMAN OMAS: What specific group? What  
6 have you studied if you have not studied the small  
7 publication?

8 In C2004-1 we asked you about small  
9 publications less than 15,000. Fifteen thousand or  
10 less in circulation. You said you felt they were not  
11 represented in that particular case and that you would  
12 study it or that the Postal Service would study it.

13 I'm asking you now, have you studied it? If  
14 so, what was your finding and are those findings  
15 included in this case?

16 (Pause).

17 CHAIRMAN OMAS: This is not a trick  
18 question.

19 WITNESS TANG: I know. I'm trying to --

20 CHAIRMAN OMAS: It's either a yes or no.  
21 Either yes, you've done it or no, you haven't done it.  
22 I've asked you, have you done it? Have you looked  
23 into it or not? It's just plain and simple. It's not  
24 a trick. I just want a yes or no, or if it's yes,  
25 what have you done?

1                   WITNESS TANG: I understand for C2004-1 I  
2 studied the sample of the publications from the small  
3 group, the medium and the large. If the criteria you  
4 just described happens to be the small publications, I  
5 did a rough assessment of the proposed rate impact and  
6 I used the same model which I used for the C2004-1.

7                   CHAIRMAN OMAS: So then you -- You're still  
8 not answering it. I asked you have you done anything  
9 new since C2004-1? It's very simple. It's a very  
10 simple question.

11                   What you're telling me, Ms. Tang -- Just a  
12 moment, I corrected one of the cross-examiners this  
13 morning for not allowing you to answer, but I don't  
14 see where we get confused here. It's a plain and  
15 simple answer.

16                   I think what you're telling me, and you  
17 correct me if I misinterpret it. You have used the  
18 same criteria that you did in C2004-1, that's just  
19 what you said. Is that not correct?

20                   WITNESS TANG: I used the same model that's  
21 developed to sample those publications, yes.

22                   CHAIRMAN OMAS: So therefore, go back to my  
23 original question. Therefore, there has been no  
24 study, nothing done since you presented your testimony  
25 in the C2004-1?

1 WITNESS TANG: That's correct. Not to that  
2 extent.

3 COMMISSIONER GOLDWAY: Can I clarify your  
4 question?

5 CHAIRMAN OMAS: Yes.

6 COMMISSIONER GOLDWAY: When you say that you  
7 used that category of mail, less than 15,000, and ran  
8 some of the rates on that category to see what the  
9 impact would be on them?

10 WITNESS TANG: If that's the criteria I used  
11 to define the small publications.

12 COMMISSIONER GOLDWAY: If it is? Was it the  
13 criteria you used? You don't remember what the  
14 criteria was you used for the small publication?

15 WITNESS TANG: I'm not 100 percent sure  
16 without looking at the --

17 CHAIRMAN OMAS: The follow-up to that is  
18 have you measured the impact of the proposed container  
19 charge on the thousands of very small circulation  
20 publications? And we're going back to what  
21 Commissioner Hammond said. That is a very big concern  
22 to all of us, the small publications.

23 What you're telling us is you've done  
24 nothing.

25 WITNESS TANG: I did the assessment of the

1 proposed rate and container rate is included in the  
2 proposed rate.

3 CHAIRMAN OMAS: But did you do it for small  
4 circulation?

5 WITNESS TANG: Yes I did it for large,  
6 medium and small circulation.

7 CHAIRMAN OMAS: What criteria did you use  
8 for small publications and has that then been  
9 included? Or did you use the same criteria that you  
10 discussed in C2004-1?

11 WITNESS TANG: That's correct. I used the  
12 same criteria.

13 CHAIRMAN OMAS: Thank you.

14 Would you please provide for the record  
15 anything and everything that you've used, I don't care  
16 what it is, when it comes to small publications of  
17 15,000 or less and what criteria you took into  
18 consideration, whether it's from C2004-1 or whatever?  
19 Just for the record, would you please provide that?

20 WITNESS TANG: Yes.

21 CHAIRMAN OMAS: Thank you very much.

22 Mr. Rubin, would you like some time with  
23 your witness?

24 Oh, I'm sorry, Mr. Straus?

25 MR. STRAUS: I'm trying to get clarification

1 of what exactly you asked for. Did you ask the  
2 witness to produce the results of her analysis of the  
3 impact?

4 CHAIRMAN OMAS: Of whatever she has used.

5 MR. STRAUS: I didn't hear the word results  
6 in the question. I'm not sure whether you're going to  
7 get what you asked for.

8 CHAIRMAN OMAS: We need the criteria and the  
9 results that she got in considering the new container  
10 rate structure for the small circulation publications.

11 We'd like you to provide that for the  
12 record.

13 Mr. Rubin, would you like time with your  
14 witness?

15 MR. RUBIN: I think at least ten, we'll try  
16 to do it in ten minutes.

17 CHAIRMAN OMAS: Take the time you need. We  
18 want the record to be clarified and to be correct.

19 Thank you.

20 (Whereupon, a recess was taken from 4:34 to  
21 4:55 p.m.)

22 CHAIRMAN OMAS: Mr. Rubin?

23 MR. RUBIN: Thank you.

24 REDIRECT EXAMINATION BY USPS

25 BY MR. RUBIN:

Heritage Reporting Corporation  
(202) 628-4888

1           Q     Commissioner Hammond asked about the  
2     container rate applying to a one piece container. Do  
3     you believe that periodicals mailers ever would be  
4     required to make a one piece container?

5           A     No.

6           Q     What options would they have to such a  
7     container?

8           A     They can make up mixed ADC sacks which would  
9     cover a very wide geographical area. Including  
10    different states.

11          Q     Counsel for American Business Press asked  
12    whether you assessed the impact of the proposed rates  
13    and publications that cannot co-palletize such as air  
14    freighted publications. Did you consider the impact  
15    of your proposal on publications that do not palletize  
16    for whatever reason?

17          A     I did look at some of the sacks mailings  
18    which are not palletized.

19          Q     Thank you.

20                 You also were asked about, I guess by  
21    counsel for NNA, about the goal of lowest combined  
22    costs. It may have been McGraw-Hill. In any case, do  
23    you need to know mailer costs in order to promote the  
24    goal of lowest combined costs?

25          A     No, I don't. All I need is the knowledge of

1 the cost savings that the Postal Service will get from  
2 change of mail preparation and mailers' response to  
3 the price signals.

4 Q Thank you.

5 MR. RUBIN: I have no more questions.

6 CHAIRMAN OMAS: Thank you, Mr. Rubin.

7 Before I excuse the witness the information  
8 that I requested I would appreciate if you could  
9 supply that in seven days.

10 MR. RUBIN: Yes, we'll try to do that.

11 CHAIRMAN OMAS: Thank you. Try?

12 All right. Ms. Tang, thank you for your  
13 testimony here today. We appreciate your contribution  
14 to the record and you are now excused.

15 WITNESS TANG: Thank you.

16 (Thereupon, the witness was excused).

17 CHAIRMAN OMAS: This concludes today's  
18 hearing. We will reconvene here in the morning at  
19 9:30 a.m. where we'll receive testimony from Postal  
20 Service Witnesses Yeh and Kiefer.

21 Thank you very much and have a good evening.

22 (Whereupon, at 5:00 p.m. the hearing was  
23 recessed, to reconvene at 9:30 a.m. on Friday, August  
24 11, 2006.)

25 //